Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The board of directors (the "Board") of Tencent Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009. These results have been audited by PricewaterhouseCoopers, the auditors of the Company (the "Auditors"), in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company (the "Audit Committee"), comprising a majority of the independent non-executive directors of the Company.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2009 was RMB5,155.6 million, an increase of 85.2% compared with the results for the year ended 31 December 2008. Basic and diluted earnings per share for the year ended 31 December 2009 were RMB2.862 and RMB2.791 respectively.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.40 per share (2008: final dividend of HKD0.25 per share and special dividend of HKD0.10 per share) for the year ended 31 December 2009, subject to the approval of the shareholders at the annual general meeting of the Company ("AGM") to be held on 12 May 2010. Such proposed dividend will be payable on 26 May 2010 to shareholders whose names appear on the register of members of the Company on 12 May 2010.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

		As at 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Fixed assets		**2,517,202**	1,165,048
Construction in progress		**105,771**	875,897
Investment properties		**68,025**	64,981
Leasehold land and land use rights		**35,296**	36,046
Intangible assets		**268,713**	370,314
Investment in associates		**477,622**	302,712
Deferred income tax assets		**301,016**	334,164
Held-to-maturity investments		**341,410**	–
Available-for-sale financial assets		**153,462**	86,180
Prepayments, deposits and other receivables		**80,306**	124,354
		4,348,823	3,359,696
Current assets			
Inventories		**–**	5,483
Accounts receivable	3	**1,229,436**	983,459
Prepayments, deposits and other receivables		**373,642**	378,340
Financial assets held for trading		**–**	329,804
Held-to-maturity investments		**–**	68,346
Term deposits with initial term of over three months		**5,310,168**	1,662,501
Restricted cash		**200,000**	–
Cash and cash equivalents		**6,043,696**	3,067,928
		13,156,942	6,495,861
Total assets		**17,505,765**	9,855,557

		As at 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		**197**	195
Share premium		**1,244,425**	1,155,209
Shares held for share award scheme		**(123,767)**	(21,809)
Share-based compensation reserve		**703,563**	381,439
Other reserves		**(166,364)**	(433,038)
Retained earnings		**10,520,453**	5,938,930
		12,178,507	7,020,926
Minority interests in equity		**120,146**	98,406
Total equity		**12,298,653**	7,119,332
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**369,983**	78,368
Long-term payables		**274,050**	566,260
		644,033	644,628
Current liabilities			
Accounts payable	5	**696,511**	244,647
Other payables and accruals		**1,626,051**	1,013,542
Short-term bank borrowing		**202,322**	–
Current income tax liabilities		**85,216**	47,307
Other tax liabilities		**216,978**	103,933
Deferred revenue		**1,736,001**	682,168
		4,563,079	2,091,597
Total liabilities		**5,207,112**	2,736,225
Total equity and liabilities		**17,505,765**	9,855,557
Net current assets		**8,593,863**	4,404,264
Total assets less current liabilities		**12,942,686**	7,763,960

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

		Year ended 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenues			
Internet value-added services		**9,530,711**	4,914,974
Mobile and telecommunications value-added services		**1,905,599**	1,398,984
Online advertising		**962,171**	826,049
Others		**41,479**	14,537
		12,439,960	7,154,544
Cost of revenues	7	**(3,889,468)**	(2,170,421)
Gross profit		**8,550,492**	4,984,123
Interest income		**136,014**	105,216
Other (losses)/gains, net	6	**(58,213)**	6,989
Selling and marketing expenses	7	**(581,468)**	(518,147)
General and administrative expenses	7	**(2,026,347)**	(1,332,207)
Operating profit	*	**6,020,478**	3,245,974
Finance costs	**	**(1,953)**	(140,732)
Share of profit/(loss) of associates		**22,206**	(347)
Profit before income tax		**6,040,731**	3,104,895
Income tax expense	8	**(819,120)**	(289,245)
Profit for the year/total comprehensive income for the year		**5,221,611**	2,815,650
Attributable to:			
Equity holders of the Company		**5,155,646**	2,784,577
Minority interests		**65,965**	31,073
		5,221,611	2,815,650

	Note	Year ended 31 December 2009	2008
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
- basic	9	**2.862**	1.552
- diluted	9	**2.791**	1.514
Dividends per share			
Final dividend proposed	10	**HKD0.40**	HKD0.25
Special dividend proposed	10	**–**	HKD0.10
		HKD0.40	HKD0.35

* After deduction of share-based compensation charge amounting to RMB321,422,000 for the year ended 31 December 2009 (2008: RMB160,507,000).

** Included foreign exchange losses of RMB1,953,000 for the year ended 31 December 2009 (2008: RMB140,732,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2009	**195**	**1,155,209**	**(21,809)**	**381,439**	**(433,038)**	**5,938,930**	**7,020,926**	**98,406**	**7,119,332**
Profit for the year/total comprehensive income for the year	–	–	–	–	–	**5,155,646**	**5,155,646**	**65,965**	**5,221,611**
Employee share option schemes:									
- value of employee services	–	–	–	**167,178**	–	–	**167,178**	–	**167,178**
- proceeds from shares issued	**2**	**165,446**	–	–	–	–	**165,448**	–	**165,448**
Employee share award scheme:									
- value of employee services	–	–	–	**154,946**	–	–	**154,946**	–	**154,946**
- shares purchased for share award scheme	–	–	**(103,618)**	–	–	–	**(103,618)**	–	**(103,618)**
- vesting of awarded shares	–	**(1,660)**	**1,660**	–	–	–	–	–	–
Repurchase and cancellation of shares	–	**(74,570)**	–	–	–	–	**(74,570)**	–	**(74,570)**
Profit appropriations to statutory reserves	–	–	–	–	**2,193**	**(2,193)**	–	–	–
Dividends (Note 10)	–	–	–	–	–	**(554,604)**	**(554,604)**	**(32,088)**	**(586,692)**
Equity interest purchased for an employee restricted equity interest plan in a non-wholly owned subsidiary	–	–	–	–	–	**(17,326)**	**(17,326)**	**(11,856)**	**(29,182)**
Exercise of put option granted to minority shareholders	–	–	–	–	**281**	–	**281**	**(281)**	–
Reversal of the liabilities in respect of the put options granted to minority shareholders	–	–	–	–	**264,200**	–	**264,200**	–	**264,200**
Balance at 31 December 2009	**197**	**1,244,425**	**(123,767)**	**703,563**	**(166,364)**	**10,520,453**	**12,178,507**	**120,146**	**12,298,653**
Balance at 1 January 2008	194	1,455,854	–	220,230	80,295	3,413,823	5,170,396	64,661	5,235,057
Profit for the year/total comprehensive income for the year	–	–	–	–	–	2,784,577	2,784,577	31,073	2,815,650
Employee share option schemes:									
- value of employee services	–	–	–	150,217	–	–	150,217	–	150,217
- proceeds from shares issued	2	86,940	–	–	–	–	86,942	–	86,942
Employee share award scheme:									
- value of employee services	–	–	–	10,992	–	–	10,992	–	10,992
- shares purchased for share award scheme	–	–	(21,809)	–	–	–	(21,809)	–	(21,809)
Repurchase and cancellation of shares	(1)	(387,585)	–	–	–	–	(387,586)	–	(387,586)
Profit appropriations to statutory reserves	–	–	–	–	1,667	(1,667)	–	–	–
Dividends (Note 10)	–	–	–	–	–	(257,803)	(257,803)	–	(257,803)
Recognition of the liabilities in respect of the put options granted to minority shareholders	–	–	–	–	(515,000)	–	(515,000)	–	(515,000)
Others	–	–	–	–	–	–	–	2,672	2,672
Balance at 31 December 2008	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**8,398,365**	3,579,627
Net cash flows used in investing activities	**(5,024,795)**	(2,514,533)
Net cash flows used in financing activities	**(397,110)**	(869,940)
Net increase in cash and cash equivalents	**2,976,460**	195,154
Cash and cash equivalents at beginning of year	**3,067,928**	2,948,757
Exchange losses on cash and cash equivalents	**(692)**	(75,983)
Cash and cash equivalents at end of year	**6,043,696**	3,067,928
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**1,898,166**	1,958,719
Short-term highly liquid investments with initial term of three months or less	**4,145,530**	1,109,209
	6,043,696	3,067,928

Notes:

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

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

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

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 financial assets held for trading.

Assessment and adoption of new standards, interpretations and amendments

The following new standards, interpretations and amendments to existing standards which have been published and are mandatory for the financial year ended 31 December 2009, are relevant to the Group:

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
Amendment to IFRS 7	Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 13	Customer Loyalty Programmes

The Group has applied the IAS 1 (Revised), the IAS 23 (Revised), the IFRS 2 (Amendment), the Amendment to IFRS 7 and the IFRS 8 and management considers they do not have a significant impact on the Group's financial statements. The current accounting treatment adopted by the Group for customer loyalty programmes complies with the requirement of IFRIC 13.

2 **Segment information**

The Group has the following reportable segments for the years ended 31 December 2009 and 2008:

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

Other segments of the Group mainly comprise provision of online payments and trademark licensing.

There were no transactions between the business segments.

The segment information provided to the chief operating decision-makers for the years ended 31 December 2009 and 2008 are as follows:

Year ended 31 December 2009	**Internet value-added services** *RMB'000*	**Mobile and telecommunications value-added services** *RMB'000*	**Online advertising** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenues (revenues from external customers)	**9,530,711**	**1,905,599**	**962,171**	**41,479**	**12,439,960**
Gross profit/(loss)	**6,741,486**	**1,177,852**	**664,563**	**(33,409)**	**8,550,492**
Depreciation	**141,427**	**17,956**	**7,063**	**7,114**	**173,560**
Amortisation	**73,772**	**–**	**–**	**–**	**73,772**
Share of profit of associates	**15,957**	**6,249**	**–**	**–**	**22,206**

Year ended 31 December 2008	Internet value-added services *RMB'000*	Mobile and telecommunications value-added services *RMB'000*	Online advertising *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenues (revenues from external customers)	4,914,974	1,398,984	826,049	14,537	7,154,544
Gross profit/(loss)	3,521,096	884,315	614,160	(35,448)	4,984,123
Depreciation	81,306	15,745	4,913	4,000	105,964
Amortisation	38,890	–	–	–	38,890
Share of loss of associates	(301)	(46)	–	–	(347)

3 **Accounts receivable**

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
0 - 30 days	**690,858**	550,813
31 days - 60 days	**173,331**	172,461
61 days - 90 days	**112,752**	67,593
Over 90 days but less than a year	**252,495**	192,592
	1,229,436	983,459

The receivable balances as at 31 December 2009 mainly represented the amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, and advertising customers located in the PRC.

The Group has no formal credit periods communicated to telecommunication operators. However these customers usually settle the amounts due from them within a period of 30 to 120 days. Advertising customers usually have a credit period of 90 days after full execution of the contracted advertisement orders.

4 **Share option and share award schemes**

(a) **Share option schemes**

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

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

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 the Pre-IPO Option Scheme had been granted.

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

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

(iii) ***Post-IPO Option Scheme II***

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

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

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. The Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption. No share options had been granted under the Post-IPO Option Scheme III since its adoption to 31 December 2009.

Movements in the number of 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 2008	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Granted	–	–	–	–	HKD53.4775	13,559,367	13,559,367
Exercised	USD0.1106	(4,624,739)	HKD7.6504	(11,327,458)	HKD31.9561	(193,959)	(16,146,156)
Lapsed	USD0.1967	(40)	HKD9.4576	(1,253,088)	HKD48.4173	(2,085,578)	(3,338,706)
At 31 December 2008	USD0.0964	4,124,083	HKD10.4762	37,615,536	HKD41.2330	28,715,506	70,455,125
Currently exercisable as at 31 December 2008	USD0.0964	4,124,083	HKD9.2835	15,281,499	HKD32.8184	632,668	20,038,250
At 1 January 2009	**USD0.0964**	**4,124,083**	**HKD10.4762**	**37,615,536**	**HKD41.2330**	**28,715,506**	**70,455,125**
Granted	**–**	**–**	**–**	**–**	**HKD89.8122**	**2,952,150**	**2,952,150**
Exercised	**USD0.1164**	**(2,004,895)**	**HKD8.4108**	**(12,249,167)**	**HKD54.2627**	**(1,995,844)**	**(16,249,906)**
Lapsed	**USD0.0498**	**(254,120)**	**HKD9.6262**	**(424,451)**	**HKD45.7985**	**(680,393)**	**(1,358,964)**
At 31 December 2009	**USD0.0812**	**1,865,068**	**HKD11.5050**	**24,941,918**	**HKD45.1756**	**28,991,419**	**55,798,405**
Currently exercisable as at 31 December 2009	**USD0.0812**	**1,865,068**	**HKD9.6579**	**18,037,478**	**HKD41.5573**	**3,057,144**	**22,959,690**

During the year ended 31 December 2009, no share options (2008: Nil) were granted to any director of the Company.

As a result of options exercised during the year ended 31 December 2009, 16,249,906 (2008: 16,146,156) ordinary shares were issued. The weighted average price of the shares at the time these options were exercised was HKD90.56 (equivalent to approximately RMB79.80) per share (2008: HKD53.86 per share).

(b) **Share award scheme**

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

Movements in the number of shares held for the Share Scheme and awarded shares for the years ended 31 December 2009 and 2008 are as follows:

	Shares held for the Share Scheme	**Awarded shares**
At 1 January 2008	–	–
Purchased	465,560	–
Allotted	1,016,050	–
Granted	(1,349,450)	1,349,450
At 31 December 2008	132,160	1,349,450
Currently exercisable as at 31 December 2008		–
At 1 January 2009	**132,160**	**1,349,450**
Purchased (Note (i))	**1,013,100**	**–**
Allotted	**8,181,180**	**–**
Granted	**(9,194,350)**	**9,194,350**
Cancelled (Note (ii))	**(132,080)**	**–**
Vested	**–**	**(132,376)**
At 31 December 2009	**10**	**10,411,424**
Currently exercisable as at 31 December 2009		**339,056**

Note:

(i) During the year ended 31 December 2009, the Group acquired 1,013,100 shares through an independent trustee with a consideration of approximately HKD117,591,000 (equivalent to approximately RMB103,618,000).

(ii) The grant of 132,080 awarded shares was not completed and these shares were subsequently cancelled.

During the year ended 31 December 2009, no awarded shares (2008: Nil) were granted to any director of the Company.

5 Accounts payable

Accounts payable and their aging analysis are as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
0 - 30 days	**493,013**	202,237
31 days - 60 days	**72,554**	25,225
61 days - 90 days	**82,525**	1,269
Over 90 days but less than a year	**48,419**	15,916
	696,511	244,647

6 Other (losses)/gains, net

	2009	2008
	RMB'000	*RMB'000*
Government subsidies	**28,339**	64,823
Gains on financial assets held for trading	**11,929**	169
Impairment charge for fixed assets	**–**	(11,302)
Impairment charge for available-for-sale financial assets	**–**	(18,673)
Donation to a charity fund established by the Group	**(85,000)**	(30,000)
Loss on disposals of fixed assets	**(3,043)**	(8,583)
Loss on disposals of intangible assets	**(1,654)**	–
Others	**(8,784)**	10,555
	(58,213)	6,989

7 **Expenses by nature**

	2009	2008
	RMB'000	*RMB'000*
Employee benefits expenses *(Note)*	**2,133,135**	1,361,038
Mobile and telecommunications charges and bandwidth and server custody fees	**1,584,025**	1,126,409
Content costs and agency fees	**1,430,526**	495,299
Promotion and advertising expenses	**306,309**	278,943
Depreciation of fixed assets *(Note)*	**405,301**	264,360
Amortisation of intangible assets	**131,897**	94,387
Amortisation of leasehold land and land use rights	**466**	546
Travelling and entertainment expenses	**108,404**	85,596
Operating lease rentals in respect of office buildings	**89,381**	88,630
Auditors' remuneration	**5,950**	5,200
Other expenses	**301,889**	220,367
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**6,497,283**	4,020,775

Note:

Research and development expenses for the year ended 31 December 2009 were RMB1,191,637,000 (2008: RMB710,460,000) which included employee benefit expenses of RMB948,309,000 (2008: RMB547,339,000) and depreciation of fixed assets of RMB215,674,000 (2008: RMB147,809,000).

The Group did not capitalise any research and development expenses for the year ended 31 December 2009 (2008: Nil).

8 **Income tax expense**

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

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

The Group has not been subject to any taxation in these jurisdictions for the year ended 31 December 2009 (2008: Nil).

(ii) **Hong Kong Profits Tax**

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the year ended 31 December 2009 (2008: Nil).

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

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 ("New CIT Law"), the CIT for domestic and foreign enterprises has been unified at 25%, effective 1 January 2008. In addition, the New CIT 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 CIT Law and which were entitled to preferential income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the "Circular to Implementation of the Transitional Preferential Policies for the Corporate Income Tax". Pursuant to this Circular, the transitional income tax rates for the Group's subsidiaries established in the Shenzhen Special Economic Zone ("Shenzhen") or the Beijing High Technology Zone ("Beijing Hi-tech 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.

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

For Tencent Technology, it was further approved as a national key software enterprise for 2009, and accordingly, its CIT rate in 2009 was further reduced to 10%.

According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from CIT for three years starting from the first year of its commercial operation, followed by a 50% reduction for the next three years. 2005 was its first year of operation and accordingly, the provision for CIT was provided at a rate of 7.5% for 2009 (2008: 7.5%).

As approved by the relevant tax authority, Cyber Tianjin is exempt from CIT for two years commencing from the first year of profitable operation after offsetting prior years' tax loss, followed by a 50% reduction for the next three years. 2008 was the first profit-making year of Cyber Tianjin, and no provision for CIT was provided for 2009 (2008: Nil).

In addition, Beijing Yonghang Technology Company Limited, a non-wholly owned subsidiary of the Group, was recognised as a newly set-up software production enterprise in 2009. According to the tax incentives granted by the tax authority, it is exempt from CIT in 2009, and will enjoy 50% reduction from 2010 to 2012.

The income tax charge of the Group for the year ended 31 December 2009 and 2008 is analysed as follows:

	2009	2008
	RMB'000	*RMB'000*
Current tax	**494,357**	298,474
Deferred income taxes relating to the origination and reversal of temporary differences	**324,763**	(37,602)
Deferred income taxes resulting from change in the tax rates	**–**	28,373
	819,120	289,245

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 20% for the year ended 31 December 2009 (2008: 18%), the tax rate of the major subsidiaries of the Company before preferential tax treaty. The difference is analysed as follows:

	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**6,040,731**	3,104,895
Add: Share of (profit)/loss of associates	**(22,206)**	347
	6,018,525	3,105,242
Tax calculated at a tax rate of 20% (2008: 18%)	**1,203,705**	558,944
Income not subject to tax	**–**	(3,097)
Effect of different tax rates available to different companies of the Group	**(363,940)**	(106,749)
Effect of change in tax rate	**–**	28,373
Effect of tax holiday on assessable profits of subsidiaries	**(429,638)**	(282,194)
Expenses not deductible for tax purposes	**75,691**	40,450
Adjustments in respect of prior year	**(13,528)**	–
Withholding tax on the earnings anticipated to be remitted by subsidiaries	**300,000**	50,000
Unrecognised deferred tax assets	**46,830**	3,518
Tax charge	**819,120**	289,245

9 **Earnings per share**

(a) **Basic**

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

	2009	2008
Profit attributable to equity holders of the Company for the year (RMB'000)	**5,155,646**	2,784,577
Weighted average number of ordinary shares in issue (thousand shares)	**1,801,646**	1,793,777
Basic EPS (RMB per share)	**2.862**	1.552

(b) **Diluted**

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

	2009	2008
Profit attributable to equity holders of the Company for the year (RMB'000)	**5,155,646**	2,784,577
Weighted average number of ordinary shares in issue (thousand shares)	**1,801,646**	1,793,777
Adjustments for share options (thousand shares)	**43,566**	44,515
Adjustments for awarded shares (thousand shares)	**2,073**	505
Weighted average number of ordinary shares for the calculation of diluted earnings per share (thousand shares)	**1,847,285**	1,838,797
Diluted EPS (RMB per share)	**2.791**	1.514

10 **Dividends**

The dividends paid in 2009 were RMB554,604,000 (2008: RMB257,803,000), which excluded the dividend related to the shares held by the share scheme trust of RMB462,000 (2008: Nil).

A final dividend in respect of the year ended 31 December 2009 of HKD0.40 per share (2008: final dividend of HKD0.25 per share and special dividend of HKD0.10 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2010 and subject to the approval of the shareholders in the annual general meeting to be held on 12 May 2010. These consolidated financial statements do not reflect this dividend payable.

OPERATING INFORMATION

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

	As at 31 December 2009	As at 30 September 2009	Percentage change
	(in millions)		
Active user accounts of IM	**522.9**	484.9	7.8%
Peak simultaneous online user accounts of IM (for the quarter)	**93.0**	75.5	23.2%
Average daily user hours of IM (for the last 15/16 days of the quarter)	**1,382.4**	1,202.2	15.0%
Active user accounts of Qzone	**387.8**	305.3	27.0%
Peak simultaneous online user accounts of QQ Game (for the quarter)	**6.2**	5.7	8.8%
Fee-based Internet value-added services registered subscriptions	**51.6**	47.9	7.7%
Fee-based mobile and telecommunications value-added services registered subscriptions	**20.3**	17.7	14.7%

Note: In light of the latest development of the Internet market and our business, we have revised the scope of disclosure of operating statistics to better reflect the performance of our different platforms and value-added services.

In the fourth quarter of 2009, the active user base of our IM platform continued to expand. There was a significant increase in user activity and engagement of our IM platform, as evidenced by the growth in peak simultaneous online user accounts and average daily user hours. This was primarily driven by the growing popularity of social networking service ("SNS") and the increasing usage of our IM service on mobile devices. The fourth quarter saw the expansion of the active user base of Qzone as our SNS applications grew. The peak simultaneous online user accounts of QQ Game also registered growth, on the back of improved user experience and introduction of new play modes for major games. Registered subscriptions to our Internet value-added services increased during the quarter, primarily driven by the growth in Qzone and QQ Show. The increase in registered subscriptions to our fee-based mobile and telecommunications value-added services was mainly attributable to our bundled SMS packages.

FINANCIAL PERFORMANCE HIGHLIGHTS

Year Ended 31 December 2009

Consolidated revenues for the year ended 31 December 2009 were RMB12,440.0 million, an increase of 73.9% from the year ended 31 December 2008.

Revenues from our Internet value-added services for the year ended 31 December 2009 were RMB9,530.7 million, an increase of 93.9% from the year ended 31 December 2008.

Revenues from our mobile and telecommunications value-added services for the year ended 31 December 2009 were RMB1,905.6 million, an increase of 36.2% from the year ended 31 December 2008.

Revenues from our online advertising business for the year ended 31 December 2009 were RMB962.2 million, an increase of 16.5% from the year ended 31 December 2008.

Cost of revenues for the year ended 31 December 2009 were RMB3,889.5 million, an increase of 79.2% from the year ended 31 December 2008.

Selling and marketing expenses for the year ended 31 December 2009 were RMB581.5 million, an increase of 12.2% from the year ended 31 December 2008.

General and administrative expenses for the year ended 31 December 2009 were RMB2,026.3 million, an increase of 52.1% from the year ended 31 December 2008.

Operating profit for the year ended 31 December 2009 was RMB6,020.5 million, representing an increase of 85.5% over the year ended 31 December 2008. As a percentage of revenues, operating profit represented 48.4% for the year ended 31 December 2009, compared to 45.4% for the year ended 31 December 2008.

Profit for the year ended 31 December 2009 was RMB5,221.6 million, representing an increase of 85.4% from the year ended 31 December 2008. As a percentage of revenues, profit for the year represented 42.0% for the year ended 31 December 2009, compared to 39.4% for the year ended 31 December 2008.

Profit attributable to equity holders of the Company for the year ended 31 December 2009 was RMB5,155.6 million, representing an increase of 85.2% from the year ended 31 December 2008.

Fourth Quarter of 2009

Unaudited consolidated revenues for the fourth quarter of 2009 were RMB3,688.3 million, an increase of 75.9% over the same period in 2008 and an increase of 9.5% from the third quarter of 2009.

Revenues from our Internet value-added services for the fourth quarter of 2009 were RMB2,847.1 million, an increase of 92.6% over the same period in 2008 and an increase of 8.6% from the third quarter of 2009.

Revenues from our mobile and telecommunications value-added services for the fourth quarter of 2009 were RMB549.9 million, an increase of 37.5% over the same period in 2008 and an increase of 23.3% from the third quarter of 2009.

Revenues from our online advertising business for the fourth quarter of 2009 were RMB279.0 million, an increase of 33.1% over the same period in 2008 and a decrease of 5.0% from the third quarter of 2009.

Cost of revenues for the fourth quarter of 2009 were RMB1,144.9 million, an increase of 67.6% over the same period in 2008 and an increase of 11.8% from the third quarter of 2009.

Selling and marketing expenses for the fourth quarter of 2009 were RMB208.1 million, an increase of 41.3% over the same period in 2008 and an increase of 29.5% from the third quarter of 2009.

General and administrative expenses for the fourth quarter of 2009 were RMB572.9 million, an increase of 50.8% over the same period in 2008 and an increase of 5.5% from the third quarter of 2009.

Operating profit for the fourth quarter of 2009 was RMB1,776.7 million, representing an increase of 90.5% over the same period in 2008 and an increase of 5.7% from the third quarter of 2009. As a percentage of revenues, operating profit represented 48.2% for the fourth quarter of 2009, compared to 44.5% for the same period of 2008 and 49.9% for the third quarter of 2009.

Profit for the fourth quarter of 2009 was RMB1,533.1 million, representing an increase of 75.0% over the same period in 2008 and an increase of 7.0% from the third quarter of 2009. As a percentage of revenues, profit for the period represented 41.6% for the fourth quarter of 2009, compared to 41.8% for the same period of 2008 and 42.5% for the third quarter of 2009.

Profit attributable to equity holders of the Company for the fourth quarter of 2009 was RMB1,507.9 million, an increase of 73.5% over the same period in 2008 and an increase of 6.2% from the third quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2009 Compared to Third Quarter of 2009

The following table sets forth the comparative figures for the fourth quarter of 2009 and the third quarter of 2009:

	Unaudited Three months ended	
	31 December 2009	30 September 2009
	RMB'000	*RMB'000*
Revenues	**3,688,264**	3,368,908
Cost of revenues	**(1,144,855)**	(1,024,086)
Gross profit	**2,543,409**	2,344,822
Interest income	**41,116**	33,329
Other (losses)/gains, net	**(26,886)**	5,685
Selling and marketing expenses	**(208,105)**	(160,671)
General and administrative expenses	**(572,882)**	(542,818)
Operating profit	**1,776,652**	1,680,347
Finance costs	**(369)**	(1,179)
Share of profit of associates	**9,542**	3,840
Profit before income tax	**1,785,825**	1,683,008
Income tax expense	**(252,772)**	(249,808)
Profit for the period/total comprehensive income for the period	**1,533,053**	1,433,200
Attributable to:		
Equity holders of the Company	**1,507,945**	1,419,851
Minority interests	**25,108**	13,349
	1,533,053	1,433,200

Revenues. Revenues increased by 9.5% to RMB3,688.3 million for the fourth quarter of 2009 from RMB3,368.9 million for the third quarter of 2009. The following table sets forth our revenues by line of business for the fourth quarter of 2009 and the third quarter of 2009:

	Unaudited			
	Three months ended			
	31 December 2009		30 September 2009	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**2,847,055**	**77.2%**	2,622,625	77.8%
Mobile and telecommunications value-added services	**549,899**	**14.9%**	446,152	13.3%
Online advertising	**279,006**	**7.6%**	293,558	8.7%
Others	**12,304**	**0.3%**	6,573	0.2%
Total revenues	**3,688,264**	**100.0%**	3,368,908	100.0%

– Revenues from our Internet value-added services increased by 8.6% to RMB2,847.1 million for the fourth quarter of 2009 from RMB2,622.6 million for the third quarter of 2009. Revenues from our community value-added services, which were less sensitive to seasonal fluctuation, grew by 18.1% to RMB1,292.1 million from RMB1,093.9 million for the previous quarter, with the growth in Qzone, QQ Membership and QQ Show partly offset by the decline in QQ Pets. Qzone registered significant growth during the quarter as a result of increased user engagement and monetisation driven by the popularity of SNS applications. Subscriber base of QQ Membership expanded, thanks to our ongoing enrichment of online and offline privileges which enhanced user loyalty and stickiness. Growth in revenues from QQ Show was attributable to the increase in monthly subscription, as well as improvement in customer loyalty driven by the launch of annual subscription package and our continued enhancements in user experience. QQ Pets experienced decline in revenues as we reduced monetisation to increase usage and to transform the product into a multi-player community platform. For our online gaming business, revenues increased by 1.7% to RMB1,555.0 million from RMB1,528.7 million for the previous quarter, despite weaker seasonality. This was primarily due to the increase in revenues from Dungeon and Fighter ("DNF") and Cross Fire as a result of the launch of upgrades and promotional activities. Silk Road Hero, a web-based MMOG launched in the third quarter, started to gain popularity and registered revenue growth as well. On the other hand, revenues from more mature MMOGs declined.

– Revenues from our mobile and telecommunications value-added services increased by 23.3% to RMB549.9 million for the fourth quarter of 2009 from RMB446.2 million for the third quarter of 2009. This was primarily driven by the growth in the user base of our bundled SMS packages resulting from the launch of privileges associated with our SNS applications as well as our continued enhancements in service features. The growth in mobile games and the recovery of realisation rates, which were particularly low in the third quarter of 2009, also contributed to the revenue increase. Revenues from our WAP business declined mainly attributable to the suspension of the billing for WAP services by China Mobile since 30 November 2009.

– Revenues from our online advertising business decreased by 5.0% to RMB279.0 million for the fourth quarter of 2009 from RMB293.6 million for the third quarter of 2009. This was attributable to the significant reduction in search-based advertising revenues as a result of the amended service contract with our partner and the transition into our self-developed search engine. Albeit weaker seasonality in the fourth quarter, advertising revenues from our IM client and portal increased by 2.8% on the back of the general improvement in macro environment and improved customer recognition of the effectiveness of our advertising platforms.

Cost of revenues. Cost of revenues increased by 11.8% to RMB1,144.9 million for the fourth quarter of 2009 from RMB1,024.1 million for the third quarter of 2009. This mainly reflected the increase in telecommunications operators' revenue share, sharing costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 31.0% for the fourth quarter of 2009 from 30.4% for the third quarter of 2009. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2009 and the third quarter of 2009:

	Unaudited			
	Three months ended			
	31 December 2009		30 September 2009	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**834,649**	**29.3%**	744,797	28.4%
Mobile and telecommunications value-added services	**206,629**	**37.6%**	172,477	38.7%
Online advertising	**83,795**	**30.0%**	88,389	30.1%
Others	**19,782**	**160.8%**	18,423	280.3%
Total cost of revenues	**1,144,855**		1,024,086	

– Cost of revenues for our Internet value-added services increased by 12.1% to RMB834.6 million for the fourth quarter of 2009 from RMB744.8 million for the third quarter of 2009. This primarily reflected the increase in sharing costs driven by the revenue growth in our licensed games. Telecommunications operators' revenue share as well as bandwidth and server custody fees also increased along with the expansion of our business volume.

– Cost of revenues for our mobile and telecommunications value-added services increased by 19.8% to RMB206.6 million for the fourth quarter of 2009 from RMB172.5 million for the third quarter of 2009. The increase was mainly driven by higher telecommunications operators' revenue share due to the growth in revenues.

– Cost of revenues for our online advertising business decreased by 5.2% to RMB83.8 million for the fourth quarter of 2009 from RMB88.4 million for the third quarter of 2009. This mainly reflected the reduction in revenues.

Interest income. Interest income increased by 23.4% to RMB41.1 million for the fourth quarter of 2009 from RMB33.3 million for the third quarter of 2009. This was primarily driven by the growth in cash and term deposits.

Other (losses)/gains, net. We recorded other losses, net of RMB26.9 million for the fourth quarter of 2009 compared to other gains, net of RMB5.7 million for the third quarter of 2009. The change primarily was due to the donation of RMB30.0 million made to the Tencent Charity Fund during the fourth quarter, whereas no donation was made in the previous quarter.

Selling and marketing expenses. Selling and marketing expenses increased by 29.5% to RMB208.1 million for the fourth quarter of 2009 from RMB160.7 million for the third quarter of 2009. The increase was mainly driven by the launch of a TV brand advertising campaign in December 2009 which aims to further enhance our brand recognition and image. As a percentage of revenues, selling and marketing expenses increased to 5.6% for the fourth quarter of 2009 from 4.8% for the third quarter of 2009.

General and administrative expenses. General and administrative expenses increased by 5.5% to RMB572.9 million for the fourth quarter of 2009 from RMB542.8 million for the third quarter of 2009. This was primarily driven by the expansion of our research and development team for supporting the long-term growth of our business. Other administrative expenses also increased as our business scale expanded. As a percentage of revenues, general and administrative expenses decreased to 15.5% for the fourth quarter of 2009 from 16.1% for the third quarter of 2009.

Finance costs. Finance costs decreased by 68.7% to RMB0.4 million for the fourth quarter of 2009 from RMB1.2 million for the third quarter of 2009. This reflected lower foreign exchange losses associated with our US dollar-denominated cash and investments.

Income tax expense. Income tax expense increased by 1.2% to RMB252.8 million for the fourth quarter of 2009 from RMB249.8 million for the third quarter of 2009. This was principally driven by the increase in deferred tax liabilities recognised in respect of intra-group dividend expected to be paid by our PRC subsidiaries to their overseas parent companies, as well as higher profit before tax. The increase was largely offset by the reversal of income tax expenses as certain subsidiaries were qualified during the fourth quarter of 2009 to enjoy lower tax rates. In addition, certain donations made to the Tencent Charity Fund were qualified as tax deductible expenses. This also helped offset the increase in income tax expense.

Profit for the period. Profit for the period increased by 7.0% to RMB1,533.1 million for the fourth quarter of 2009 from RMB1,433.2 million for the third quarter of 2009. Net margin was 41.6% for the fourth quarter of 2009 compared to 42.5% for the third quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 6.2% to RMB1,507.9 million for the fourth quarter of 2009 from RMB1,419.9 million for the third quarter of 2009.

Year Ended 31 December 2009 Compared to Year Ended 31 December 2008

The following table sets forth the comparative figures for the year ended 31 December 2009 and the year ended 31 December 2008:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Revenues	**12,439,960**	7,154,544
Cost of revenues	**(3,889,468)**	(2,170,421)
Gross profit	**8,550,492**	4,984,123
Interest income	**136,014**	105,216
Other (losses)/gains, net	**(58,213)**	6,989
Selling and marketing expenses	**(581,468)**	(518,147)
General and administrative expenses	**(2,026,347)**	(1,332,207)
Operating profit	**6,020,478**	3,245,974
Finance costs	**(1,953)**	(140,732)
Share of profit/(loss) of associates	**22,206**	(347)
Profit before income tax	**6,040,731**	3,104,895
Income tax expense	**(819,120)**	(289,245)
Profit for the year/total comprehensive income for the year	**5,221,611**	2,815,650
Attributable to:		
Equity holders of the Company	**5,155,646**	2,784,577
Minority interests	**65,965**	31,073
	5,221,611	2,815,650

Revenues. Revenues increased by 73.9% to RMB12,440.0 million for the year ended 31 December 2009 from RMB7,154.5 million for the year ended 31 December 2008. The following table sets forth our revenues by line of business for the year ended 31 December 2009 and the year ended 31 December 2008:

	Year ended 31 December			
	2009		2008	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**9,530,711**	**76.6%**	4,914,974	68.7%
Mobile and telecommunications value-added services	**1,905,599**	**15.3%**	1,398,984	19.6%
Online advertising	**962,171**	**7.7%**	826,049	11.5%
Others	**41,479**	**0.4%**	14,537	0.2%
Total revenues	**12,439,960**	**100.0%**	7,154,544	100.0%

– Revenues from our Internet value-added services increased by 93.9% to RMB9,530.7 million for the year ended 31 December 2009 from RMB4,915.0 million for the year ended 31 December 2008. Online gaming revenues grew by 131.5% to RMB5,385.4 million from RMB2,325.9 million for the previous year as the MMOGs and advanced casual games launched in 2008, including DNF, Cross Fire, QQ Dancer and QQ Speed, commanded strong market response. QQ Game also contributed to the growth on a year-on-year basis. The growth in online gaming revenues was partially offset by the decline in revenues from more mature MMOGs. Our community value-added services increased by 60.1% to RMB4,145.3 million from RMB2,589.1 million for the previous year, with the growth in Qzone, QQ Membership and QQ Show partly offset by the decline in QQ Pets. Increase in revenues from Qzone was stimulated by the launch of new SNS applications which enhanced user activity and engagement. User base of QQ Membership expanded on the back of improved user loyalty and stickiness due to the continued enhancements in value-added functions as well as online and offline privileges. Revenues from QQ Show benefited from the growth in monthly subscription as we focused on enhancing the fashionable appeal and user experience of the product. Revenues from QQ Pets declined as we reduced monetisation to increase usage and to transform the product into a multi-player community platform.

– Revenues from our mobile and telecommunications value-added services increased by 36.2% to RMB1,905.6 million for the year ended 31 December 2009 from RMB1,399.0 million for the year ended 31 December 2008. The increase was mainly driven by the growth in revenues from our bundled SMS packages as we improved the functionalities and privileges of our products and services. It also reflected growth in mobile gaming revenues as a result of the increasing popularity of mobile games and our continued content enrichment. Revenues from mobile SNS applications also increased, albeit from a low base. The increase was partly offset by the decline in revenues from legacy services, including content download, colour ringback tone and IVR.

– Revenues from our online advertising business increased by 16.5% to RMB962.2 million for the year ended 31 December 2009 from RMB826.0 million for the year ended 31 December 2008, despite the negative impact of the global economic slowdown on advertising spending in China. The increase mainly reflected the growth of our user base, the strengthening of our advertising platforms and sales organisation, as well as the enhancements in our brand position and media influence. Revenues from search-based advertising decreased significantly in the fourth quarter of 2009 as we amended the service contract with our partner and switched to our self-developed search engine.

Cost of revenues. Cost of revenues increased by 79.2% to RMB3,889.5 million for the year ended 31 December 2009 from RMB2,170.4 million for the year ended 31 December 2008. This primarily reflected increase in sharing costs, telecommunications operators' revenue share, staff costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased slightly to 31.3% for the year ended 31 December 2009 from 30.3% for the year ended 31 December 2008. The following table sets forth our cost of revenues by line of business for the year ended 31 December 2009 and the year ended 31 December 2008:

	Year ended 31 December			
	2009		2008	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**2,789,225**	**29.3%**	1,393,878	28.4%
Mobile and telecommunications value-added services	**727,747**	**38.2%**	514,669	36.8%
Online advertising	**297,608**	**30.9%**	211,889	25.7%
Others	**74,888**	**180.5%**	49,985	343.8%
Total cost of revenues	**3,889,468**		2,170,421	

– Cost of revenues for our Internet value-added services increased by 100.1% to RMB2,789.2 million for the year ended 31 December 2009 from RMB1,393.9 million for the year ended 31 December 2008. This mainly reflected growth in sharing costs due to the significant increase in revenues from our licensed games, including DNF and Cross Fire. Telecommunications operators' revenue share, bandwidth and server custody fees as well as staff costs also increased, driven by the growth of our business.

– Cost of revenues for our mobile and telecommunications value-added services increased by 41.4% to RMB727.7 million for the year ended 31 December 2009 from RMB514.7 million for the year ended 31 December 2008. This was primarily driven by the increase in telecommunications operators' revenue share and sharing costs as a result of revenue growth. Staff costs also increased as our business scale expanded.

– Cost of revenues for our online advertising business increased by 40.5% to RMB297.6 million for the year ended 31 December 2009 from RMB211.9 million for the year ended 31 December 2008. This primarily reflected the increase in sales commissions paid to advertising agencies and staff costs as a result of our business expansion.

Interest income. Interest income increased by 29.3% to RMB136.0 million for the year ended 31 December 2009 from RMB105.2 million for the year ended 31 December 2008. This was primarily due to the increased amount of cash and term deposits, partially offset by lowered interest rates.

Other (losses)/gains, net. We recorded other losses, net of RMB58.2 million for the year ended 31 December 2009, compared to other gains, net of RMB7.0 million for the year ended 31 December 2008. This mainly reflected the increase in donations made to the Tencent Charity Fund from RMB30.0 million for the year ended 31 December 2008 to RMB85.0 million for the year ended 31 December 2009, as well as the reduction in government subsidies. The decrease was partially offset by the increase in fair value gains on financial assets held for trading. In addition, we recognised an impairment loss of RMB18.7 million with respect to one of our investees and an impairment charge of RMB11.3 million for leasehold improvements in 2008. Such items were not repeated in 2009.

Selling and marketing expenses. Selling and marketing expenses increased by 12.2% to RMB581.5 million for the year ended 31 December 2009 from RMB518.1 million for year ended 31 December 2008. The increase was primarily driven by increased staff costs due to the hiring of additional selling and marketing personnel.

Promotional and advertising spending also increased as we stepped up our brand advertising campaign during the year. Impact of the increase in spending on brand advertisement and promotion was partly offset by the expenses related to the reporting of Beijing Olympics in August 2008, which were not incurred in 2009. As a percentage of revenues, selling and marketing expenses decreased to 4.7% for the year ended 31 December 2009 from 7.2% for the year ended 31 December 2008.

General and administrative expenses. General and administrative expenses increased by 52.1% to RMB2,026.3 million for the year ended 31 December 2009 from RMB1,332.2 million for the year ended 31 December 2008. The increase mainly reflected increased staff costs as a result of the growth in the headcount of our research and development team and other supporting departments. As a percentage of revenues, general and administrative expenses decreased to 16.3% for the year ended 31 December 2009 from 18.6% for the year ended 31 December 2008.

Finance costs. Finance costs decreased by 98.6% to RMB2.0 million for the year ended 31 December 2009 from RMB140.7 million for the year ended 31 December 2008. This was mainly due to the significant reduction in foreign exchange losses attributable to our US dollar-denominated cash and investments.

Income tax expense. We recorded income tax expense of RMB819.1 million for the year ended 31 December 2009 compared to RMB289.2 million for the year ended 31 December 2008. The change primarily reflected the growth in profit before tax as well as the increase in deferred tax liabilities recognised relating to intra-group dividend expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the year. Profit for the year increased by 85.4% to RMB5,221.6 million for the year ended 31 December 2009 from RMB2,815.7 million for the year ended 31 December 2008. Net margin was 42.0% for the year ended 31 December 2009 compared to 39.4% for the year ended 31 December 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 85.2% to RMB5,155.6 million for the year ended 31 December 2009 from RMB2,784.6 million for the year ended 31 December 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009 and 30 September 2009, we had the following major financial resources in the form of cash and investments:

	Audited 31 December 2009 *RMB'000*	Unaudited 30 September 2009 *RMB'000*
Cash and cash equivalents	**6,043,696**	5,159,322
Term deposits with initial term of over three months	**5,310,168**	4,115,240
Held-to-maturity investments	**341,410**	341,450
Total	**11,695,274**	9,616,012

Note: The above table excludes RMB200.0 million of restricted deposits pledged as part of a USD29.8 million short-term bank borrowing arrangement, as such deposits are scheduled to offset the borrowed amount at the maturity of the loan.

As at 31 December 2009, RMB1,089.7 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 fluctuation 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 at 31 December 2009.

CAPITAL EXPENDITURES

For the year ended 31 December 2009, our capital expenditures consisted of additions to fixed assets, investment properties, construction in progress, leasehold land and land user rights and intangible assets totalling RMB1,026.5 million. For the year ended 31 December 2008, our capital expenditures consisted of similar items totalling RMB1,448.9 million.

BUSINESS REVIEW AND OUTLOOK

The Internet market in China continued to expand rapidly in 2009. Total number of Internet users increased by 28.9% to 384 million at the end of the year, according to China Internet Network Information Center. At the end of 2009, Internet penetration stood at 28.9%, reaching global average, but was still lower than that in developed countries. After years of rapid growth in penetration, the growth rate of new users is poised to slow down over time. On the other hand, the usage of Internet is becoming more entrenched in users' everyday life. This is evidenced by the fact that the average time spent online per user has been growing. In addition, the Internet has increasingly become a major media for people in China to communicate and network, to seek entertainment and information as well as to conduct transactions. We believe the sector is well poised to benefit from the secular growth of the Chinese economy in the long run.

2009 was a year in flux for both the economy and Internet industry in China. The overall economic environment was very challenging at the beginning of the year with the global financial crisis negatively impacting on investments and consumption. However, market conditions improved substantially later on, riding on the Chinese government's enormous stimulus package. For the Internet market, the year saw rapid development of the mobile Internet, catalysed by the reduction in traffic costs, increasing penetration of Internet-enabled mobile devices, and the launch of 3G mobile networks. At the end of 2009, total mobile Internet population in China increased significantly by 98.5% to 233 million. Such rapid growth has underpinned the rising adoption of different Internet applications on mobile, including WAP portal, IM, SNS and games. Another significant development in the Internet market was the evolution and substantial growth of the SNS sector, mainly driven by the rising popularity of social gaming applications. SNS platforms have increasingly become an indispensable part of everyday life for Internet users. Meanwhile, the online gaming sector continued to expand, riding on the continued growth of MMOGs, advanced casual games and mini casual games, as well as the upsurge in web-based games. During the year, usage of online video also grew significantly, although rampant piracy hampered participation of established Internet companies like ourselves. For online advertising, the industry was impacted by the global financial crisis in the first half of the year as advertisers significantly reduced their spending in response to the economic downturn. This was followed by a gradual recovery in the second half of the year as market conditions improved.

As the Chinese Internet market continues to develop, we have witnessed users' increasing demand for better services, and more intensified competition from experienced and well-funded competitors. In order to maintain our position in this dynamic and highly competitive industry, we will continue to increase our investments in research and development, technological infrastructure, people development and branding in the coming years. In this process, we will incur significant costs and may even have to forgo certain revenues that interfere with user experience. However, we believe we ought to take a long-term perspective in building our business, and these investments will benefit the Company and our shareholders in the long run.

In the year of 2009, Tencent's diversified business portfolio delivered robust growth. Our Internet value-added services ("IVAS") grew significantly during the year, underpinned by the growth of our major online games and community value-added services. Our mobile and telecommunications value-added services ("MVAS") also registered solid increase in revenues on the back of the growth in our bundled SMS packages and mobile games. Despite the impact of the global financial crisis, our online advertising business registered above-industry growth as we continued to improve the key aspects of our business, including brand, content, sales organisation and technology platform. For the fourth quarter of 2009, our IVAS registered increase in revenues as our community value-added services, which were less sensitive to seasonal fluctuation, continued to grow. Despite weaker seasonality, revenues from our online gaming business were broadly stable compared to the previous quarter, primarily driven by the strong performance of DNF and Cross Fire. Our MVAS enjoyed significant growth in revenues on the back of the continued increase in the user base of our bundled SMS packages. Mobile games and the recovery of realisation rates, which were particularly low in the third quarter, also contributed to the growth. Our online advertising business experienced decline in revenues in the fourth quarter. This mainly reflected the contraction of our search-based advertising business as we amended service contract with our partner and switched to our self-developed search engine. Advertising revenues from our IM client and portal increased with general improvement in macro environment as well as enhanced customer recognition of the effectiveness of our advertising platforms. Looking into the first quarter of 2010, we expect more favourable seasonality for our IVAS, particularly for our online games, as the winter break for students and the Chinese New Year holidays would enhance users' propensity to spend. For MVAS, revenues would be affected by the suspension of billing for WAP services by China Mobile since 30 November 2009 and the continued decline of legacy services, including content download, colour ringback tone and IVR. The regulatory measure implemented in early 2010, which limits one SMS service code to one product only, would also have a negative impact on the business. Our online advertising business would face a weaker season in the first quarter as advertising activities generally slow down around the Chinese New Year holidays.

IM Platform

Our core IM platform enjoyed continued growth during the year, thanks to the increasing popularity of SNS, which enhanced user activity and engagement through cross-platform integration. Usage of our IM service via client software installed on Internet-enabled mobile devices also contributed to the growth. Active users at the end of the year reached 522.9 million, representing a year-on-year growth of 38.8%. Peak concurrent users ("PCU") increased by 87.1% to 93.0 million in the fourth quarter. On 5 March 2010, we made a significant milestone as our PCU exceeded 100 million, marking a new page in the history of China's Internet market.

During the year, we continued to focus on enhancing our IM platform. QQ 2009, a new generation of our IM service, was successfully launched to enhance the overall user experience, and to allow us to better address different needs of our large user base. Its improved architecture also enables broader and deeper integration with other platforms of Tencent, enhancing user value and stickiness. Going forward, we will further enhance our services for different user segments with tailored functionalities based on the new architecture.

QQ.com

QQ.com continued to generate the highest traffic among portals in China. During the year, our brand image and awareness further improved as we stepped up our advertising and promotional activities, which include a major brand TV advertising campaign that ran from December 2009 to early 2010. We also focused on enhancing QQ.com's position as a leading mainstream media by strengthening the reporting of major events, such as the 60th anniversary of National Day, and enhancing the content quality of different channels. In 2010, we will leverage our sponsorship for the 2010 World Exposition in Shanghai as well as the coverage of other major events, such as the World Cup, to further enhance our brand position and media influence. We will also continue to improve our key vertical channels and achieve stronger integration with other platforms of Tencent.

Internet value-added services

For our community value-added services, Qzone registered robust growth during the year and further consolidated its position as the largest SNS platform in China, with active users increasing by 158.4% to 387.8 million at the end of 2009. The key drivers of the strong growth were the popularity of SNS applications, especially social games, as well as the continued improvements in user experience and features. Xiaoyou, a real-name SNS launched in January 2009, gained considerable traction during the year and has become a popular service among university students and young alumni. In 2010, we will focus on offering more SNS applications, including third-party applications, to enhance user value and better address the needs of different user groups in the market. We will also enhance the integration of our SNS with other platforms of Tencent to further extend our leadership. For QQ Membership, 2009 saw significant growth in user base as well as enhanced user loyalty and stickiness, mainly attributable to the bundling of more value-added functions as well as online and offline lifestyle privileges. However, further growth of QQ Membership will become more challenging with its large base and already high penetration among the QQ users. For QQ Show, revenues increased significantly during the year as we focused on promoting its fashionable appeal with the launch of different trendy themes and offline promotions, as well as improving user loyalty and stickiness through our subscription program. Seasonal volatility of the product also decreased as the bulk of the revenue was generated through monthly subscription as opposed to item-sale before. For QQ Pets, revenues declined during the year as we reduced monetisation to increase usage and to transform it into a multi-player community platform. We will re-position the product as a game targeting younger demographics, and expect the product to generate relatively little revenue going forward.

Our online game business posted remarkable growth in 2009. Since the second quarter of 2009, we have become the largest online game operator in China by revenue, demonstrating the strengths of our platforms, our diversified product portfolio as well as our execution capabilities. During the year, our major MMOGs and advanced casual games commanded strong market response and posted significant growth in users and revenues. DNF experienced significant growth during the year. In the fourth quarter of 2009, its PCU reached 2.2 million, making it one of China's top online games. Cross Fire became the first First Person Shooting ("FPS") game in the world achieving the 1 million PCU milestone. Its PCU further increased to 1.8 million in the fourth quarter. QQ Dancer also saw its PCU surpassing 1 million during the year. QQ Game, the largest mini-casual game portal in China, continued to register solid growth with its PCU growing to 6.2 million in the fourth quarter of 2009.

During 2009, we launched Silk Road Hero, a web-based MMOG, and Hero Island, a niche market MMOG, to address various segments in the online gaming market. At the beginning of 2010, we also introduced A.V.A., an advanced FPS game, to further enrich our game portfolio. As the online game industry begins to mature, we believe gamers will demand for increasingly high quality games, increasing the investment requirements and decreasing the success rates for new games. Amid this more challenging industry environment, we will continue to leverage our platforms and extensive operational experience to launch high quality games in different market segments via self-development, licensing and investments. Our preliminary pipeline for the rest of 2010 includes four MMOGs. We will also continue to develop new content and play modes for our existing games.

Mobile and telecommunications value-added services

Our MVAS business registered solid growth in 2009 with the continued organic growth of our bundled SMS packages and mobile games. During the year, traffic on our WAP portal registered significant growth, further consolidating our position as the leading wireless portal in China. We also continued to develop mobile applications based on our existing Internet platforms to address the different needs of mobile Internet users and capture the opportunities presented by the launch of 3G in China.

Despite the opportunities ahead, outlook of the MVAS sector in China remains uncertain as the industry value chain continues to evolve. The suspension of the billing for WAP services and additional regulatory measures implemented in early 2010 exemplified the challenging regulatory environment. We are also facing shrinking business volume for our legacy services and intensifying competition from new entrants in the market. Although we have been actively adjusting our business operations to mitigate the negative impact of these risk factors, it is important to recognise that our MVAS revenues for 2010 will continue to face low visibility and high volatility.

Online advertising

Our online advertising business faced a tough operating environment in 2009, particularly at the beginning of the year, as the global financial crisis severely affected market sentiment and advertising spending. Despite the challenges, we achieved above-industry revenue growth during the year, on the back of increased customer recognition of the effectiveness of our advertising platforms as well as our enhanced operations. Riding on our success among online gaming, food and beverage and apparel advertisers, we made good progress in other major advertiser sectors including automobile and finance.

During the year, we continued to focus on enhancing the overall competitiveness of our business. Our advertising platform has been significantly improved to offer more effective support to our sales teams in satisfying customer needs. We also stepped up our brand investments which have enhanced market recognition of the strengths of our Internet platforms among advertisers.

Looking into 2010, we will continue to focus on leveraging our integrated platforms as a key differentiator to broaden our advertiser base. Significant investments in our brand will also be made. In particular, we will ride on major events, including the 2010 World Exposition and World Cup, to enhance our brand image and media influence as well as to generate advertising opportunities. We will also continue to focus on improving the key aspects of our operations, including sales organisation and advertising platform. On the other hand, we expect to see relatively little revenue from our search business during the year as we have just switched to our self-developed search engine, and the near-to-mid-term priority for us will be on improving the user experience as opposed to generating revenue.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 December 2009, the Group had 7,515 employees (2008: 6,194), most of whom were based in Shenzhen, the PRC. The number of employees employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training 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 2009 was RMB2,136.8 million (2008: RMB1,365.6 million).

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

During the year, the Company repurchased 1,922,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD84.4 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 2009	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	1,822,000	45.80	41.50	79,706,000
February	100,000	47.00	45.80	4,644,000
Total	1,922,000			84,350,000

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

Closure of Register of Members

The register of members will be closed from Friday, 7 May 2010 to Wednesday, 12 May 2010 both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 May 2010.

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 has reviewed the Group's audited financial statements for the year ended 31 December 2009.

Auditors' Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Auditors, PricewaterhouseCoopers, to be the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2008 annual report of the Company which was the position as at 31 December 2008, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2009, 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 (the "Listing Rules").

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

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

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

APPRECIATION

On behalf of the Board, I would like to thank all our employees for their efforts, dedication and commitment, all of which contributed to the growth of the Group, as well as our shareholders for their continuous support and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 17 March 2010

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. The forward-looking statements may prove to be incorrect and may not be realised in future. Underlying the 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.