

**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 NINE MONTHS ENDED 30 SEPTEMBER 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 nine months ended 30 September 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 SEPTEMBER 2008

	Unaudited 30 September 2008 <i>RMB'000</i>	Audited 31 December 2007 <i>RMB'000</i>
<i>Note</i>		
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	1,100,564	839,256
Construction in progress	605,548	112,232
Investment property	65,339	66,414
Leasehold land and land use rights	36,234	36,796
Intangible assets	439,785	451,554
Investment in a jointly controlled entity	—	179
Investment in associates	332,240	—
Deferred income tax assets	351,408	287,652
Held-to-maturity investments	—	73,046
Available-for-sale financial assets	47,782	63,605
Other long-term assets	115,135	219,138
Prepayments, deposits and other receivables	<u>73,094</u>	<u>—</u>
	<b>3,167,129</b>	<b>2,149,872</b>
<b>Current assets</b>		
Inventories	585	1,701
Accounts receivable	3 1,052,022	535,528
Prepayments, deposits and other receivables	523,720	130,406
Financial assets held for trading	326,187	266,495
Held-to-maturity investments	68,183	—
Derivative financial instruments	29,640	47,759
Term deposits with initial term of over three months	1,567,359	604,486
Restricted cash	300,000	300,000
Cash and cash equivalents	<u>2,301,727</u>	<u>2,948,757</u>
	<b>6,169,423</b>	<b>4,835,132</b>
<b>Total assets</b>	<b><u>9,336,552</u></b>	<b><u>6,985,004</u></b>

		<b>Unaudited</b>	Audited
		<b>30 September</b>	31 December
		<b>2008</b>	2007
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital		195	194
Share premium		1,305,417	1,455,854
Shares held for share award scheme		(10,218)	—
Share-based compensation reserve		332,786	220,230
Other reserves		(281,288)	93,712
Retained earnings		<u>5,071,500</u>	<u>3,413,823</u>
		<b>6,418,392</b>	<b>5,183,813</b>
<b>Minority interests in equity</b>		<u>118,323</u>	<u>91,630</u>
<b>Total equity</b>		<u><b>6,536,715</b></u>	<u><b>5,275,443</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		49,131	59,944
Long-term payables	5	<u>416,524</u>	<u>—</u>
		<u><b>465,655</b></u>	<u><b>59,944</b></u>
<b>Current liabilities</b>			
Accounts payable	6	252,956	117,062
Other payables and accruals		870,260	669,194
Short-term bank borrowing		292,184	292,184
Derivative financial instruments		11,941	30,060
Current income tax liabilities		122,961	71,133
Other tax liabilities		232,955	134,746
Deferred revenue		<u>550,925</u>	<u>335,238</u>
		<u><b>2,334,182</b></u>	<u><b>1,649,617</b></u>
<b>Total liabilities</b>		<u><b>2,799,837</b></u>	<u><b>1,709,561</b></u>
<b>Total equity and liabilities</b>		<u><b>9,336,552</b></u>	<u><b>6,985,004</b></u>
<b>Net current assets</b>		<u><b>3,835,241</b></u>	<u><b>3,185,515</b></u>
<b>Total assets less current liabilities</b>		<u><b>7,002,370</b></u>	<u><b>5,335,387</b></u>

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2008**

		Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2008	2007	2008	2007
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenues</b>					
		<b>1,400,598</b>	717,718	<b>3,436,373</b>	1,765,740
	Internet value-added services				
	Mobile and telecommunications value-added services	<b>372,498</b>	193,481	<b>999,100</b>	596,061
	Online advertising	<b>249,068</b>	144,643	<b>616,438</b>	333,310
	Others	<b>2,310</b>	1,784	<b>5,252</b>	3,592
		<b>2,024,474</b>	1,057,626	<b>5,057,163</b>	2,698,703
	Cost of revenues	8 <u>(645,748)</u>	<u>(295,112)</u>	8 <u>(1,487,282)</u>	<u>(798,672)</u>
	<b>Gross profit</b>	2 <b>1,378,726</b>	762,514	2 <b>3,569,881</b>	1,900,031
	Other (losses)/gains, net	7 <b>(6,902)</b>	5,033	7 <b>66,401</b>	62,361
	Selling and marketing expenses	8 <b>(184,730)</b>	(78,039)	8 <b>(370,876)</b>	(219,119)
	General and administrative expenses	8 <u>(376,585)</u>	<u>(219,235)</u>	8 <u>(952,286)</u>	<u>(583,229)</u>
	<b>Operating profit</b>	* <b>810,509</b>	470,273	* <b>2,313,120</b>	1,160,044
	Finance costs	** <b>(7,944)</b>	(12,137)	** <b>(143,328)</b>	(41,332)
	Share of loss of associates/ a jointly controlled entity	<u>(176)</u>	<u>(14)</u>	<u>(1,734)</u>	<u>(14)</u>
	<b>Profit before income tax</b>	<b>802,389</b>	458,122	<b>2,168,058</b>	1,118,698
	Income tax expense	9 <u>(57,099)</u>	<u>(31,813)</u>	9 <u>(228,557)</u>	<u>(67,734)</u>
	<b>Profit for the period</b>	<b><u>745,290</u></b>	<u>426,309</u>	<b><u>1,939,501</u></b>	<u>1,050,964</u>

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2008	2007	2008	2007
	Note	RMB'000	RMB'000	RMB'000	RMB'000
<b>Attributable to:</b>					
Equity holders of the Company		<b>737,123</b>	426,401	<b>1,915,480</b>	1,051,056
Minority interests		<u><b>8,167</b></u>	<u>(92)</u>	<u><b>24,021</b></u>	<u>(92)</u>
		<u><b>745,290</b></u>	<u>426,309</u>	<u><b>1,939,501</b></u>	<u>1,050,964</u>
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)					
- basic	10	<u><b>0.410</b></u>	<u>0.239</u>	<u><b>1.067</b></u>	<u>0.591</u>
- diluted	10	<u><b>0.400</b></u>	<u>0.232</u>	<u><b>1.040</b></u>	<u>0.573</u>

\* After deduction of share-based compensation charge amounting to RMB44,593,000 for the three months ended 30 September 2008 (for the three months ended 30 September 2007: RMB31,296,000) and RMB112,086,000 for the nine months ended 30 September 2008 (for the nine months ended 30 September 2007: RMB71,705,000).

\*\* Included foreign exchange losses of RMB7,944,000 for the three months ended 30 September 2008 (for the three months ended 30 September 2007: RMB11,607,000) and RMB143,328,000 for the nine months ended 30 September 2008 (for the nine months ended 30 September 2007: RMB39,743,000).

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

	Unaudited Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
<b>Balance at</b>									
<b>1 January 2008</b>	194	1,455,854	—	220,230	93,712	3,413,823	5,183,813	91,630	5,275,443
Profit for the period	—	—	—	—	—	1,915,480	1,915,480	24,021	1,939,501
Employee share option schemes:									
- value of employee services	—	—	—	112,556	—	—	112,556	—	112,556
- proceeds from shares issued	1	69,412	—	—	—	—	69,413	—	69,413
Repurchase and cancellation of shares	—	(219,849)	—	—	—	—	(219,849)	—	(219,849)
Shares purchased for share award scheme	—	—	(10,218)	—	—	—	(10,218)	—	(10,218)
Dividend relating to 2007 (Note 11)	—	—	—	—	—	(257,803)	(257,803)	—	(257,803)
Recognition of the financial liabilities in respect of the put option granted to a minority shareholder (Note 5)	—	—	—	—	(375,000)	—	(375,000)	—	(375,000)
Other movements	—	—	—	—	—	—	—	2,672	2,672
<b>Balance at</b>									
<b>30 September 2008</b>	<u>195</u>	<u>1,305,417</u>	<u>(10,218)</u>	<u>332,786</u>	<u>(281,288)</u>	<u>5,071,500</u>	<u>6,418,392</u>	<u>118,323</u>	<u>6,536,715</u>

Unaudited  
Attributable to equity holders of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Shares held for share award scheme <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
<b>Balance at</b>									
<b>1 January 2007</b>	192	1,459,020	—	118,078	80,925	2,059,541	3,717,756	—	3,717,756
Profit for the period	—	—	—	—	—	1,051,056	1,051,056	(92)	1,050,964
Employee share option schemes:									
- value of employee services	—	—	—	72,309	—	—	72,309	—	72,309
- proceeds from shares issued	3	73,047	—	—	—	—	73,050	—	73,050
Repurchase and cancellation of shares	(1)	(107,253)	—	—	—	—	(107,254)	—	(107,254)
Profit appropriations to statutory reserves	—	—	—	—	5,544	(5,544)	—	—	—
Dividend relating to 2006 (Note 11)	—	—	—	—	—	(210,211)	(210,211)	—	(210,211)
Minority interests arising from business combinations	—	—	—	—	—	—	—	5,774	5,774
<b>Balance at</b>									
<b>30 September 2007</b>	<u>194</u>	<u>1,424,814</u>	<u>—</u>	<u>190,387</u>	<u>86,469</u>	<u>2,894,842</u>	<u>4,596,706</u>	<u>5,682</u>	<u>4,602,388</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008**

	<b>Unaudited</b>	
	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	<b>2007</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Net cash flows from operating activities</b>	<b>2,087,175</b>	1,190,011
<b>Net cash flows used in investing activities</b>	<b>(2,253,821)</b>	(450,698)
<b>Net cash flows used in financing activities</b>	<b><u>(401,494)</u></b>	<u>(244,415)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(568,140)</b>	494,898
Cash and cash equivalents at beginning of period	<b>2,948,757</b>	1,844,320
Exchange losses on cash and cash equivalents	<b><u>(78,890)</u></b>	<u>(18,374)</u>
<b>Cash and cash equivalents at end of period</b>	<b><u>2,301,727</u></b>	<u>2,320,844</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>1,147,347</b>	868,358
Short-term highly liquid investments with initial term of three months or less	<b><u>1,154,380</u></b>	<u>1,452,486</u>
	<b><u>2,301,727</u></b>	<u>2,320,844</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 September 2008 and the related condensed consolidated income statement for the three and nine months ended 30 September 2008, and condensed consolidated statements of changes in shareholders’ equity and cash flow for the nine months ended 30 September 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 provides 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 nine months ended 30 September 2008 and 2007 is presented as follows:

	Unaudited Three months ended 30 September 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>1,400,598</u>	<u>372,498</u>	<u>249,068</u>	<u>2,310</u>	<u>2,024,474</u>
Segment result (gross profit/(loss))	<u>974,227</u>	<u>231,183</u>	<u>184,792</u>	<u>(11,476)</u>	1,378,726
Other losses, net					(6,902)
Selling and marketing expenses					(184,730)
General and administrative expenses					<u>(376,585)</u>
Operating profit					810,509
Finance costs					(7,944)
Share of loss of associates					<u>(176)</u>
Profit before income tax					802,389
Income tax expense					<u>(57,099)</u>
Profit for the period					<u>745,290</u>

  

	Unaudited Three months ended 30 September 2007				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>717,718</u>	<u>193,481</u>	<u>144,643</u>	<u>1,784</u>	<u>1,057,626</u>
Segment result (gross profit/(loss))	<u>545,858</u>	<u>116,937</u>	<u>105,795</u>	<u>(6,076)</u>	762,514
Other gains, net					5,033
Selling and marketing expenses					(78,039)
General and administrative expenses					<u>(219,235)</u>
Operating profit					470,273
Finance costs					(12,137)
Share of loss of a jointly controlled entity					<u>(14)</u>
Profit before income tax					458,122
Income tax expense					<u>(31,813)</u>
Profit for the period					<u>426,309</u>

	Unaudited				
	Nine months ended 30 September 2008				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added services			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	<u>3,436,373</u>	<u>999,100</u>	<u>616,438</u>	<u>5,252</u>	<u>5,057,163</u>
Segment result (gross profit/(loss))	<u>2,506,216</u>	<u>636,065</u>	<u>459,015</u>	<u>(31,415)</u>	3,569,881
Other gains, net					66,401
Selling and marketing expenses					(370,876)
General and administrative expenses					<u>(952,286)</u>
Operating profit					2,313,120
Finance costs					(143,328)
Share of loss of associates					<u>(1,734)</u>
Profit before income tax					2,168,058
Income tax expense					<u>(228,557)</u>
Profit for the period					<u>1,939,501</u>

	Unaudited				
	Nine months ended 30 September 2007				
	Internet	Mobile and	Online	Others	Total
	value-added	telecommunications	advertising		
	services	value-added services			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	<u>1,765,740</u>	<u>596,061</u>	<u>333,310</u>	<u>3,592</u>	<u>2,698,703</u>
Segment result (gross profit/(loss))	<u>1,325,100</u>	<u>365,754</u>	<u>228,811</u>	<u>(19,634)</u>	1,900,031
Other gains, net					62,361
Selling and marketing expenses					(219,119)
General and administrative expenses					<u>(583,229)</u>
Operating profit					1,160,044
Finance costs					(41,332)
Share of loss of a jointly controlled entity					<u>(14)</u>
Profit before income tax					1,118,698
Income tax expense					<u>(67,734)</u>
Profit for the period					<u>1,050,964</u>

### 3 Accounts receivable

	<b>Unaudited</b>	Audited
	<b>30 September</b>	31 December
	<b>2008</b>	2007
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 - 30 days	<b>682,321</b>	266,553
31 days - 60 days	<b>59,469</b>	103,600
61 days - 90 days	<b>81,591</b>	51,362
Over 90 days but less than a year	<b><u>228,641</u></b>	<u>114,013</u>
	<b><u>1,052,022</u></b>	<u>535,528</u>

The receivable balances as at 30 September 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 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. 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 the 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 No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	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	HKD32.3442	17,398,820	20,508,820
Exercised	USD0.1000	(8,577,770)	HKD6.7549	(9,979,625)	–	–	(18,557,395)
Lapsed	USD0.1965	<u>(299,914)</u>	HKD9.5296	<u>(1,377,135)</u>	HKD31.7500	<u>(41,230)</u>	<u>(1,718,279)</u>
At 30 September 2007	USD0.0990	<u>10,129,280</u>	HKD9.7343	<u>54,116,015</u>	HKD32.3456	<u>17,357,590</u>	<u>81,602,885</u>
At 1 January 2008	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Granted	–	–	–	–	HKD53.7274	13,056,657	13,056,657
Exercised	USD0.1085	(4,418,516)	HKD7.4667	(9,058,806)	HKD31.9042	(174,218)	(13,651,540)
Lapsed	USD0.1967	<u>(40)</u>	HKD8.5700	<u>(972,733)</u>	HKD48.6003	<u>(1,918,318)</u>	<u>(2,891,091)</u>
At 30 September 2008	USD0.0992	<u>4,330,306</u>	HKD10.3724	<u>40,164,543</u>	HKD41.1549	<u>28,399,797</u>	<u>72,894,646</u>

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

Out of the 72,894,646 share options outstanding as at 30 September 2008 (30 September 2007: 81,602,885 share options), 16,469,526 share options (30 September 2007: 15,977,071 share options) were exercisable as at 30 September 2008.

Share options exercised during the nine months ended 30 September 2008 resulted in 13,651,540 ordinary shares issued. The weighted average price of the shares at the time these share options were exercised was HKD55.17 (equivalent to approximately RMB49.43) 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.

During the nine months ended 30 September 2008, the Company established a trust (the “Trust”) in Hong Kong for the purpose of holding the Company’s shares for the benefit of Awarded Persons under the Share Scheme. For the nine months ended 30 September 2008, the Company contributed HKD11,839,000 to the Trust for its acquisition of the Company’s shares and 196,000 shares were acquired by the Trustee with the consideration of HKD11,437,000, of which 195,760 shares were granted.

For the nine months ended 30 September 2008, 1,016,050 new shares were allotted by the Company to the Trustee in order to grant to 184 employees.

No share was granted under the Share Scheme to the director of the Company.

5 **Long-term payables**

	<b>Unaudited</b>	Audited
	<b>30 September</b>	31 December
	<b>2008</b>	2007
	<b><i>RMB’000</i></b>	<i>RMB’000</i>
Non-current portion of the present value of running royalty fee	<b>41,524</b>	—
Liabilities for the put option granted to a minority shareholder (Note)	<b><u>375,000</u></b>	<u>—</u>
	<b><u>416,524</u></b>	<u>—</u>

*Note:*

On 5 August 2008, Shiji Kaixuan Technology Company Limited (“Shiji Kaixuan”) (a subsidiary of the Company through structure contracts) entered into a put option agreement (the “Put Option Agreement”) with Zhang Yan, a founder, CEO, director and substantial shareholder of Shenzhen Domain Computer Network Company Limited (“Shenzhen Domain”) (a subsidiary of Shiji Kaixuan). Pursuant to the Put Option Agreement, Shiji Kaixuan has agreed to purchase the equity interests held by Zhang Yan in Shenzhen Domain if shares of Shenzhen Domain are not listed on a recognised stock exchange by 31 December 2010. Zhang Yan may require Shiji Kaixuan to acquire all his equity interests in Shenzhen Domain over a period of three years at a valuation on Shenzhen Domain which is six times the adjusted net profit of Shenzhen Domain for the preceding fiscal year provided that the adjusted net profit of Shenzhen Domain for such year will not be less than 80% of the adjusted net profit of the preceding year. Such arrangement was accounted for as a transaction with a minority shareholder. As Shiji Kaixuan does not have the unconditional rights to avoid delivering cash under the Put Option Agreement, the Group has to recognise the relevant financial liabilities at amount of the present value of the estimated future cash out flow when it is required to acquire the equity interests held by Zhang Yan. The directors of the Company also considered that the risk and reward for these equity interests have not been transferred to the Group. Accordingly, the recognition of the liabilities should be reflected as a debit to the equity attributable to the Company’s equity holders. Based on the preliminary profit forecast, the directors of the Company estimated and recognised the financial liabilities for the relevant put option of RMB375,000,000 as at 30 September 2008, which were treated as non-current liabilities as they are to be paid after 31 December 2010.

## 6 Accounts payable

Accounts payable and their ageing analysis are as follows:

	<b>Unaudited</b>	Audited
	<b>30 September</b>	31 December
	<b>2008</b>	2007
	<b><i>RMB’000</i></b>	<b><i>RMB’000</i></b>
0 - 30 days	<b>84,559</b>	63,811
31 days - 60 days	<b>62,109</b>	11,964
61 days - 90 days	<b>58,070</b>	14,495
Over 90 days but less than a year	<b><u>48,218</u></b>	<u>26,792</u>
	<b><u>252,956</u></b>	<u>117,062</u>



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

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Interest income	<b>26,687</b>	18,218	<b>73,987</b>	60,270
Impairment charge for available-for-sale financial assets (Note (a))	<b>(18,673)</b>	—	<b>(18,673)</b>	—
Fair value losses on financial assets held for trading	<b>(7,302)</b>	(3,485)	<b>(2,661)</b>	(2,755)
Government subsidies (Note (b))	<b>260</b>	500	<b>40,040</b>	13,758
Donation to a charity fund established by the Group	<b>(10,000)</b>	(12,000)	<b>(30,000)</b>	(12,000)
Others	<b><u>2,126</u></b>	<u>1,800</u>	<b><u>3,708</u></b>	<u>3,088</u>
	<b><u>(6,902)</u></b>	<u>5,033</u>	<b><u>66,401</u></b>	<u>62,361</u>

*Note:*

- (a) Full impairment charge was provided during the nine months ended 30 September 2008 for an investment of 5.25% equity interests in an Internet company based on its latest financial position and operating result.
- (b) The government subsidies for the nine months ended 30 September 2008 mainly represented the tax refund for reinvestment.

## 8 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Employee benefits expenses (Note)	401,793	191,981	992,997	511,095
Mobile and telecom charges and bandwidth and server custody fees	315,823	170,568	794,559	428,524
Promotion and advertising expenses	118,340	44,546	193,628	120,234
Depreciation of fixed assets (Note)	71,696	37,204	184,964	102,754
Travelling and entertainment expenses	21,137	21,511	57,023	60,354
Operating lease rentals in respect of office buildings	21,771	20,036	65,692	54,374
Amortisation of intangible assets	31,894	10,393	61,866	28,594
Value-added tax paid upon transfer of software within the Group	2,100	—	4,200	2,250
Other expenses	<u>222,509</u>	<u>96,147</u>	<u>455,515</u>	<u>292,841</u>
Total cost of revenues, selling and marketing expenses and general and administrative expenses	<u>1,207,063</u>	<u>592,386</u>	<u>2,810,444</u>	<u>1,601,020</u>

### Note:

Research and development expenses were RMB212,397,000 and RMB509,768,000 for the three and nine months ended 30 September 2008, respectively (for the three and nine months ended 30 September 2007: RMB99,325,000 and RMB262,425,000, respectively). The expenses included employee benefit expenses of RMB167,480,000 and depreciation of fixed assets of RMB40,588,000 for the three months ended 30 September 2008 (for the three months ended 30 September 2007: RMB80,475,000 and RMB17,229,000, respectively) and employee benefit expenses of RMB397,815,000 and depreciation of fixed assets of RMB101,770,000 for the nine months ended 30 September 2008 (for the nine months ended 30 September 2007: RMB215,377,000 and RMB42,431,000, respectively).

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

## 9 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 preferential lower income tax rates 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 nine months ended 30 September 2008 and 2007 are analysed as follows:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
PRC current tax	<b>58,107</b>	42,851	<b>303,441</b>	85,442
Deferred tax	<b>(1,008)</b>	(11,038)	<b>(74,884)</b>	(17,708)
	<b><u>57,099</u></b>	<b><u>31,813</u></b>	<b><u>228,557</u></b>	<b><u>67,734</u></b>

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 nine months ended 30 September 2008 (for the three and nine months ended 30 September 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 30 September		Nine months ended 30 September	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<b>802,389</b>	458,122	<b>2,168,058</b>	1,118,698
Add: Share of loss of associates/ a jointly controlled entity	<u>176</u>	<u>14</u>	<u>1,734</u>	<u>14</u>
	<b><u>802,565</u></b>	<b><u>458,136</u></b>	<b><u>2,169,792</u></b>	<b><u>1,118,712</u></b>
Tax calculated at a tax rate of 18% (for the three and nine months ended 30 September 2007: 15%)	<b>144,462</b>	68,720	<b>390,563</b>	167,807
Income not subject to tax	—	—	<b>(3,097)</b>	—
Effects of different tax rates available to different companies of the Group	<b>5,885</b>	3,562	<b>11,140</b>	8,084
Effects of tax holiday on assessable profit of subsidiaries	<b>(101,821)</b>	(48,545)	<b>(185,466)</b>	(123,381)
Expenses not deductible for tax purposes	<b>7,465</b>	7,490	<b>22,204</b>	16,042
Unrecognised deferred tax assets /(utilisation of previously unrecognised deferred tax assets)	<u>1,108</u>	<u>586</u>	<u>(6,787)</u>	<u>(818)</u>
Tax charge	<b><u>57,099</u></b>	<b><u>31,813</u></b>	<b><u>228,557</u></b>	<b><u>67,734</u></b>

## 10 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 September		Unaudited Nine months ended 30 September	
	2008	2007	2008	2007
Profit attributable to equity holders of the Company for the period (RMB’000)	<u>737,123</u>	<u>426,401</u>	<u>1,915,480</u>	<u>1,051,056</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,797,409</u>	<u>1,782,374</u>	<u>1,794,728</u>	<u>1,777,992</u>
Basic EPS (RMB per share)	<u>0.410</u>	<u>0.239</u>	<u>1.067</u>	<u>0.591</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 awarded 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 30 September		Nine months ended 30 September	
	2008	2007	2008	2007
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>737,123</u>	<u>426,401</u>	<u>1,915,480</u>	<u>1,051,056</u>
Weighted average number of ordinary shares in issue (thousand shares)	<b>1,797,409</b>	1,782,374	<b>1,794,728</b>	1,777,992
Adjustments for share options (thousand shares)	<b>45,126</b>	54,144	<b>46,471</b>	55,227
Adjustments for awarded shares (thousand shares)	<u>46</u>	<u>—</u>	<u>18</u>	<u>—</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,842,581</u>	<u>1,836,518</u>	<u>1,841,217</u>	<u>1,833,219</u>
Diluted EPS (RMB per share)	<u><b>0.400</b></u>	<u>0.232</u>	<u><b>1.040</b></u>	<u>0.573</u>

## 11 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 at the annual general meeting held on 14 May 2008. Such dividends had been paid as at 30 September 2008.

No payment of interim dividend was recommended for the nine months ended 30 September 2008 (for the nine months ended 30 September 2007: Nil).

## 12 Comparatives

For the purpose of better representation of the Group's activities, prepaid 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 at the dates and for the periods presented:

	<b>For the 15-day period ended 30 September 2008 <i>(in millions)</i></b>	For the 15-day period ended 30 June 2008	Percentage Change
Registered IM user accounts (at end of period)	<b>856.2</b>	822.2	4.14%
Active user accounts (at end of period)	<b>355.1</b>	341.9	3.86%
Peak simultaneous online user accounts (for the quarter)	<b>45.3</b>	42.0	7.86%
Average daily user hours	<b>642.2</b>	627.0	2.42%
Average daily messages <sup>(1)</sup>	<b>4,361.0</b>	4,684.8	(6.91)%
Fee-based Internet value-added services registered subscriptions (at end of period)	<b>30.3</b>	26.1	16.09%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period) <sup>(2)</sup>	<b>14.8</b>	13.4	10.45%

(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 third quarter of 2008. Registered IM user accounts, active user accounts, peak simultaneous online user accounts and average daily user hours increased in the third quarter of 2008 mainly as a result of the seasonal effects of the summer school holidays and the continuing growth of the Internet market in China. However, the volume of average daily messages for the last 15 days in the third quarter of 2008 decreased compared to the volume recorded in the second quarter of 2008 as the school year started in September and there was less online activity by 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 mini games as we enhanced the functions of

these services and improved the overall user experience. The launch of several new online games aimed to take advantage of the summer school holidays also contributed to the increase in registered subscriptions. The increase in registered subscriptions for our fee-based mobile and telecommunications value-added services was mainly attributable to organic growth and an increase in subscriptions driven by our promotional activities and our efforts to improve the user experience.

## FINANCIAL PERFORMANCE HIGHLIGHTS

### First Nine Months of 2008

The following table sets forth the comparative figures for the first nine months of 2008 and the first nine months of 2007:

	<b>Unaudited</b>	
	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	<b>2007</b>
	<i>(RMB in thousands)</i>	
Revenues	<b>5,057,163</b>	2,698,703
Cost of revenues	<b>(1,487,282)</b>	<u>(798,672)</u>
Gross profit	<b>3,569,881</b>	1,900,031
Other gains, net	<b>66,401</b>	62,361
Selling and marketing expenses	<b>(370,876)</b>	(219,119)
General and administrative expenses	<b>(952,286)</b>	<u>(583,229)</u>
Operating profit	<b>2,313,120</b>	1,160,044
Finance costs	<b>(143,328)</b>	(41,332)
Share of loss of associates/a jointly controlled entity	<b>(1,734)</b>	<u>(14)</u>
Profit before income tax	<b>2,168,058</b>	1,118,698
Income tax expense	<b>(228,557)</b>	<u>(67,734)</u>
Profit for the period	<b><u>1,939,501</u></b>	<u>1,050,964</u>
Attributable to:		
Equity holders of the Company	<b>1,915,480</b>	1,051,056
Minority interests	<b><u>24,021</u></b>	<u>(92)</u>



*Revenues.* Revenues increased by 87.4% to RMB5,057.2 million for the first nine months of 2008 from RMB2,698.7 million for the first nine months of 2007.

	<b>Unaudited</b>			
	<b>Nine months ended 30 September</b>			
	<b>2008</b>		<b>2007</b>	
	<b>% of total</b>		<b>% of total</b>	
	<b>Amount</b>	<b>revenues</b>	<b>Amount</b>	<b>revenues</b>
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>3,436,373</b>	<b>68.0%</b>	1,765,740	65.4%
Mobile and telecommunications value-added services	<b>999,100</b>	<b>19.7%</b>	596,061	22.1%
Online advertising	<b>616,438</b>	<b>12.2%</b>	333,310	12.4%
Others	<u><b>5,252</b></u>	<u><b>0.1%</b></u>	<u>3,592</u>	<u>0.1%</u>
Total revenues	<u><b>5,057,163</b></u>	<u><b>100.0%</b></u>	<u>2,698,703</u>	<u>100.0%</u>

*Cost of revenues.* Cost of revenues increased by 86.2% to RMB1,487.3 million for the first nine months of 2008 from RMB798.7 million for the first nine months of 2007.

	<b>Unaudited</b>			
	<b>Nine months ended 30 September</b>			
	<b>2008</b>		<b>2007</b>	
	<b>% of</b>		<b>% of</b>	
	<b>segment</b>		<b>segment</b>	
	<b>Amount</b>	<b>revenues</b>	<b>Amount</b>	<b>revenues</b>
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>930,157</b>	<b>27.1%</b>	440,640	25.0%
Mobile and telecommunications value-added services	<b>363,035</b>	<b>36.3%</b>	230,307	38.6%
Online advertising	<b>157,423</b>	<b>25.5%</b>	104,499	31.4%
Others	<u><b>36,667</b></u>	<u><b>698.2%</b></u>	<u>23,226</u>	<u>646.6%</u>
Total cost of revenues	<u><b>1,487,282</b></u>		<u>798,672</u>	

### **Third Quarter of 2008**

Unaudited consolidated revenues for the third quarter of 2008 were RMB2,024.5 million, an increase of 91.4% over the same period in 2007 and an increase of 26.5% from the second quarter of 2008.

Revenues from our Internet value-added services for the third quarter of 2008 were RMB1,400.6 million, an increase of 95.1% over the same period in 2007 and an increase of 35.1% from the second quarter of 2008.

Revenues from our mobile and telecommunications value-added services for the third quarter of 2008 were RMB372.5 million, an increase of 92.5% over the same period in 2007 and an increase of 10.1% from the second quarter of 2008.

Revenues from online advertising for the third quarter of 2008 were RMB249.1 million, an increase of 72.2% over the same period in 2007 and an increase of 11.8% from the second quarter of 2008.

Cost of revenues for the third quarter of 2008 were RMB645.7 million, an increase of 118.8% over the same period in 2007 and an increase of 42.5% from the second quarter of 2008.

Other losses of RMB6.9 million were recorded for the third quarter of 2008, compared to other gains of RMB5.0 million for the same period in 2007 and other gains of RMB25.9 million for the second quarter of 2008.

Selling and marketing expenses for the third quarter of 2008 were RMB184.7 million, an increase of 136.7% over the same period in 2007 and an increase of 84.3% from the second quarter of 2008.

General and administrative expenses for the third quarter of 2008 were RMB376.6 million, an increase of 71.8% over the same period in 2007 and an increase of 22.6% from the second quarter of 2008.

Operating profit for the third quarter of 2008 was RMB810.5 million, representing an increase of 72.3% over the same period in 2007 and an increase of 5.9% from the second quarter of 2008. As a percentage of revenues, operating profit accounted for 40.0% for the third quarter of 2008, compared to 44.5% for the same period of 2007 and 47.8% for the second quarter of 2008.

Profit for the third quarter of 2008 was RMB745.3 million, representing an increase of 74.8% over the same period in 2007 and an increase of 14.3% from the second quarter of 2008. As a percentage of revenues, profit for the period accounted for 36.8% for the third quarter of 2008, compared to 40.3% for the same period of 2007 and 40.8% for the second quarter of 2008.

Profit attributable to equity holders of the Company for the third quarter of 2008 was RMB737.1 million, an increase of 72.9% over the same period in 2007 and an increase of 14.5% from the second quarter of 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Third Quarter of 2008 Compared to Second Quarter of 2008

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 September</b>	<b>30 June</b>
	<b>2008</b>	<b>2008</b>
	<i>(RMB in thousands)</i>	
Revenues	<b>2,024,474</b>	1,599,778
Cost of revenues	<u><b>(645,748)</b></u>	<u>(453,069)</u>
Gross profit	<b>1,378,726</b>	1,146,709
Other (losses)/gains, net	<b>(6,902)</b>	25,855
Selling and marketing expenses	<b>(184,730)</b>	(100,212)
General and administrative expenses	<u><b>(376,585)</b></u>	<u>(307,059)</u>
Operating profit	<b>810,509</b>	765,293
Finance costs	<b>(7,944)</b>	(40,918)
Share of loss of associates	<u><b>(176)</b></u>	<u>(1,558)</u>
Profit before income tax	<b>802,389</b>	722,817
Income tax expense	<u><b>(57,099)</b></u>	<u>(70,618)</u>
Profit for the period	<u><b>745,290</b></u>	<u>652,199</u>
Attributable to:		
Equity holders of the Company	<b>737,123</b>	643,979
Minority interests	<u><b>8,167</b></u>	<u>8,220</u>

*Revenues.* Revenues increased by 26.5% to RMB2,024.5 million for the third quarter of 2008 from RMB1,599.8 million for the second quarter of 2008. The following table sets forth our revenues by line of business for the third quarter of 2008 and the second quarter of 2008:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 September 2008</b>		<b>30 June 2008</b>	
	<b>% of total</b>		<b>% of total</b>	
	<b>Amount</b>	<b>revenues</b>	<b>Amount</b>	<b>revenues</b>
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>1,400,598</b>	<b>69.2%</b>	1,037,042	64.8%
Mobile and telecommunications value-added services	<b>372,498</b>	<b>18.4%</b>	338,311	21.2%
Online advertising	<b>249,068</b>	<b>12.3%</b>	222,790	13.9%
Others	<b>2,310</b>	<b>0.1%</b>	1,635	0.1%
Total revenues	<b><u>2,024,474</u></b>	<b><u>100.0%</u></b>	<b><u>1,599,778</u></b>	<b><u>100.0%</u></b>

Revenues from our Internet value-added services increased by 35.1% to RMB1,400.6 million for the third quarter of 2008 from RMB1,037.0 million for the second quarter of 2008. The increase mainly reflected the seasonal effects of the summer school holidays, which had a positive impact on the demand for our Internet value-added services. The full quarter effect of newly launched games, such as Dungeon and Fighter (“DNF”), QQ Dancer and Cross Fire, as well as organic growth in mini games contributed to a steady overall growth in revenues from online games. In addition, revenues from non-game Internet value-added services increased. Specifically, revenues from QQ Membership and online identity and community business, including Qzone, QQ Pet and QQ Show, all increased during the quarter. The increase was partially offset by a decrease in revenues from more established games, such as QQ Fantasy.

Revenues from our mobile and telecommunications value-added services increased by 10.1% to RMB372.5 million for the third quarter of 2008 from RMB338.3 million for the second quarter of 2008. This increase reflected higher revenues from bundled SMS subscriptions as well as growth in our mobile gaming services. The increase was mainly attributable to enhancements to the user experience, increased promotional efforts and growing popularity of mobile gaming services.

Revenues from online advertising increased by 11.8% to RMB249.1 million for the third quarter of 2008 from RMB222.8 million for the second quarter of 2008. The increase mainly reflected positive seasonal effects.

*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 42.5% to RMB645.7 million for the third quarter of 2008 from RMB453.1 million for the second quarter of 2008. The increase principally reflected increased sharing costs, higher bandwidth and server custody fees, increased mobile and telecommunications charges, and higher staff costs as our business volume expanded and as we implemented plans to pursue future growth. As a percentage of revenues, cost of revenues increased to 31.9% for the third quarter of 2008 from 28.3% for the second quarter of 2008. The lower margin reflected the significantly increased contribution to our revenues for the third quarter of 2008 by certain licensed games, including DNF and Cross Fire, for which we paid higher sharing costs to the developers of such games. The following table sets forth our cost of revenues by line of business for the third quarter of 2008 and the second quarter of 2008:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 September 2008</b>		<b>30 June 2008</b>	
	<b>Amount</b>	<b>% of</b>	<b>Amount</b>	<b>% of</b>
		<b>segment</b>		<b>segment</b>
		<b>revenues</b>		<b>revenues</b>
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>426,371</b>	<b>30.4%</b>	269,244	26.0%
Mobile and telecommunications value-added services	<b>141,315</b>	<b>37.9%</b>	117,761	34.8%
Online advertising	<b>64,276</b>	<b>25.8%</b>	53,656	24.1%
Others	<b>13,786</b>	<b>596.8%</b>	<u>12,408</u>	758.9%
Total cost of revenues	<b><u>645,748</u></b>		<b><u>453,069</u></b>	

Cost of revenues for our Internet value-added services increased by 58.4% to RMB426.4 million for the third quarter of 2008 from RMB269.2 million for the second quarter of 2008. The increase mainly reflected higher sharing costs associated with certain licensed games which we recently launched, including DNF and Cross Fire. Bandwidth and server custody fees, telecommunications operators' revenue share and staff costs also increased as a result of the expansion of our business.

Cost of revenues for our mobile and telecommunications value-added services increased by 20.0% to RMB141.3 million for the third quarter of 2008 from

RMB117.8 million for the second quarter of 2008. The increase mainly reflected higher amounts of telecommunications operators' revenue share due to the expansion of our business volume. In addition, sharing costs associated with our licensed mobile games increased in proportion to the growing popularity of our mobile games. Content and sharing costs relating to our bundled SMS services also increased due to content enrichment.

Cost of revenues for online advertising increased by 19.8% to RMB64.3 million for the third quarter of 2008 from RMB53.7 million for the second quarter of 2008. The increase mainly reflected an increased amount of sales commissions paid to advertising agencies as the scale of our advertising business grew, and higher staff and sharing costs corresponding to the increased business volume.

*Other (losses)/gains, net.* We recorded other losses of RMB6.9 million for the third quarter of 2008 compared to other gains of RMB25.9 million for the second quarter of 2008. The change mainly reflected an impairment loss recorded in the third quarter of 2008 of RMB18.7 million for one of our investees, which was a nascent Internet company, as well as a decrease in government subsidies received in the third quarter of 2008 compared to that of the second quarter of 2008. These changes were partially offset by the donation amount of RMB10.0 million made to the Tencent Charity Fund in the third quarter of 2008 which was smaller than the donation amount made in the second quarter of 2008.

*Selling and marketing expenses.* Selling and marketing expenses increased by 84.3% to RMB184.7 million for the third quarter of 2008 from RMB100.2 million for the second quarter of 2008. The increase was mainly due to expenses we incurred in the reporting of the Beijing Olympics in August 2008 by our portal. During the quarter, we invested about RMB56 million in video streaming content, athlete interviews, portal contents, conference hosting and advertising relating to the Olympics. We believe such investment would enhance the brand image and media influence of our portal. As a percentage of revenues, selling and marketing expenses increased to 9.1% in the third quarter of 2008 from 6.3% in the second quarter of 2008.

*General and administrative expenses.* General and administrative expenses increased by 22.6% to RMB376.6 million for the third quarter of 2008 from RMB307.1 million for the second 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 improvements to support our growing business platform. As a percentage of revenues, general and administrative expenses decreased to 18.6% in the third quarter of 2008 from 19.2% in the second quarter of 2008.

*Finance costs.* Finance costs mainly represent foreign exchange losses. We recorded finance costs of RMB7.9 million for the third quarter of 2008 compared to RMB40.9

million for the second quarter of 2008, a decrease of 80.6%. Foreign exchange losses for the third quarter of 2008 relating to our US dollar-denominated cash and investments was lower compared to that for the second quarter of 2008, when Renminbi appreciated significantly. 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. 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 19.1% to RMB57.1 million for the third quarter of 2008 from RMB70.6 million for the second quarter of 2008.

*Profit for the period.* As a result of the factors discussed above, profit for the period increased by 14.3% to RMB745.3 million for the third quarter of 2008 from RMB652.2 million for the second quarter of 2008. Profit margin was 36.8% for the third quarter of 2008 compared to 40.8% for the second quarter of 2008.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 14.5% to RMB737.1 million for the third quarter of 2008 from RMB644.0 million for the second quarter of 2008.

### Third Quarter of 2008 Compared to Third Quarter of 2007

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 September</b>	<b>30 September</b>
	<b>2008</b>	<b>2007</b>
	<i>(RMB in thousands)</i>	
Revenues	<b>2,024,474</b>	1,057,626
Cost of revenues	<u><b>(645,748)</b></u>	<u>(295,112)</u>
Gross profit	<b>1,378,726</b>	762,514
Other (losses)/gains, net	<b>(6,902)</b>	5,033
Selling and marketing expenses	<b>(184,730)</b>	(78,039)
General and administrative expenses	<u><b>(376,585)</b></u>	<u>(219,235)</u>
Operating profit	<b>810,509</b>	470,273
Finance costs	<b>(7,944)</b>	(12,137)
Share of loss of associates/ a jointly controlled entity	<u><b>(176)</b></u>	<u>(14)</u>
Profit before income tax	<b>802,389</b>	458,122
Income tax expense	<u><b>(57,099)</b></u>	<u>(31,813)</u>
Profit for the period	<u><b>745,290</b></u>	<u>426,309</u>
Attributable to:		
Equity holders of the Company	<b>737,123</b>	426,401
Minority interests	<u><b>8,167</b></u>	<u>(92)</u>



*Revenues.* Revenues increased by 91.4% to RMB2,024.5 million for the third quarter of 2008 from RMB1,057.6 million for the third quarter of 2007. The following table sets forth our revenues by line of business for the third quarter of 2008 and the third quarter of 2007:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 September 2008</b>		30 September 2007	
	<b>% of total</b>		<b>% of total</b>	
	<b>Amount revenues</b>		<b>Amount revenues</b>	
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>1,400,598</b>	<b>69.2%</b>	717,718	67.9%
Mobile and telecommunications value-added services	<b>372,498</b>	<b>18.4%</b>	193,481	18.3%
Online advertising	<b>249,068</b>	<b>12.3%</b>	144,643	13.6%
Others	<u><b>2,310</b></u>	<u><b>0.1%</b></u>	<u>1,784</u>	<u>0.2%</u>
Total revenues	<u><b>2,024,474</b></u>	<u><b>100.0%</b></u>	<u>1,057,626</u>	<u>100.0%</u>

Revenues from our Internet value-added services increased by 95.1% to RMB1,400.6 million for the third quarter of 2008 from RMB717.7 million for the third quarter of 2007. The increase reflected growth in revenues from online games, QQ Membership and online identity and community services, such as Qzone. 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. We also recorded higher revenues from recently launched games, such as DNF , Cross Fire, QQ Dancer and QQ Speed. As QQ Membership continued to offer enhanced value-added service and privileges across various platforms, user loyalty 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 92.5% to RMB372.5 million for the third quarter of 2008 from RMB193.5 million for the third quarter of 2007. The increase mainly reflected an increase in revenues from bundled SMS subscriptions as we enhanced the functionalities of our products and services. In addition, we recorded higher revenues from our mobile gaming services and WAP services.

Revenues from online advertising increased by 72.2% to RMB249.1 million for the third quarter of 2008 from RMB144.6 million for the third quarter of 2007. The increase reflected the growth in reach of and traffic on our primary advertising platforms (QQ IM and QQ.com), our increased brand recognition as a result of

marketing activities associated with our QQ.com brand, 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 118.8% to RMB645.7 million for the third quarter of 2008 from RMB295.1 million for the third quarter of 2007. The increase principally reflected increased sharing costs, higher amounts of telecommunications operators' revenue share, increased bandwidth and server custody fees and increased staff costs. As a percentage of revenues, cost of revenues increased to 31.9% for the third quarter of 2008 from 27.9% for the third quarter of 2007. The lower margin reflected the significantly increased contribution to our revenues for the third quarter of 2008 by certain licensed games, including DNF and Cross Fire, for which we paid higher sharing costs to the developers of such games. The following table sets forth our cost of revenues by line of business for the third quarter of 2008 and the third quarter of 2007:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 September 2008</b>		30 September 2007	
	<b>% of</b>		<b>% of</b>	
	<b>segment</b>		<b>segment</b>	
	<b>Amount</b>	<b>revenues</b>	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	<b>426,371</b>	<b>30.4%</b>	171,860	23.9%
Mobile and telecommunications value-added services	<b>141,315</b>	<b>37.9%</b>	76,544	39.6%
Online advertising	<b>64,276</b>	<b>25.8%</b>	38,848	26.9%
Others	<u><b>13,786</b></u>	<b>596.8%</b>	<u>7,860</u>	440.6%
Total cost of revenues	<u><b>645,748</b></u>		<u><b>295,112</b></u>	

Cost of revenues for our Internet value-added services increased by 148.1% to RMB426.4 million for the third quarter of 2008 from RMB171.9 million for the third quarter of 2007. The increase mainly reflected increased sharing costs associated with our licensed games which were launched recently, such as DNF and Cross Fire. In addition, as a result of the increase in our overall business volume, we recorded higher expenses associated with our bandwidth and server capacity, increased telecommunications operators' revenue share, and higher staff costs. The increase

also reflected salary increase that we implemented in 2008 to account for the effects of inflation in China and ensure the recruitment and retention of key talents for our business.

Cost of revenues for our mobile and telecommunications value-added services increased by 84.6% to RMB141.3 million for the third quarter of 2008 from RMB76.5 million for the third quarter of 2007. The increase mainly reflected increased telecommunications operators' revenue share and higher sharing costs as our business volume grew, as well as the salary increase in 2008.

Cost of revenues for online advertising increased by 65.5% to RMB64.3 million for the third quarter of 2008 from RMB38.8 million for the third quarter of 2007. The increase mainly reflected an increase in sales commissions paid to advertising agencies as the volume of our advertising contracts grew and as we increased our usage of advertising agencies to help sell our advertising services. Staff costs increased as we continued to expand our online advertising team to support our business growth and increased salary in 2008.

*Other (losses)/gains, net.* We recorded other losses of RMB6.9 million for the third quarter of 2008 compared to other gains of RMB5.0 million for the third quarter of 2007. The change mainly reflected an impairment loss of RMB18.7 million for one of our investees, which was a nascent Internet company, partially offset by increased interest income.

*Selling and marketing expenses.* Selling and marketing expenses increased by 136.7% to RMB184.7 million for the third quarter of 2008 from RMB78.0 million for the third quarter of 2007. The increase mainly reflected the significant expenses we incurred in the reporting of the Beijing Olympics in August 2008 by our portal. In addition, we recorded an increase in staff costs as we expanded our business. Salary increase in 2008 also contributed to the increase in selling and marketing expenses. As a percentage of revenues, selling and marketing expenses increased to 9.1% in the third quarter of 2008 from 7.4% in the third quarter of 2007.

*General and administrative expenses.* General and administrative expenses increased by 71.8% to RMB376.6 million for the third quarter of 2008 from RMB219.2 million for the third 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. The increase also reflected higher staff costs due to the salary increase in 2008 and our employing more staff to support our business expansion. As a percentage of revenues, general and administrative expenses decreased to 18.6% in the third quarter of 2008 from 20.7% in the third quarter of 2007.

*Finance costs.* Finance costs mainly represent foreign exchange losses. We recorded finance costs of RMB7.9 million for the third quarter of 2008 compared to RMB12.1 for the third quarter of 2007, a decrease of 34.5%. The decrease was primarily 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. 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.* We recorded income tax expenses of RMB57.1 million for the third quarter of 2008 compared to RMB31.8 million for the third quarter of 2007, an increase of 79.5%. The increase was mainly due to higher profit before tax and an increase in the applicable income tax rate as a result of the new enterprise income tax law that became effective as of 1 January 2008.

*Profit for the period.* Profit for the period increased by 74.8% to RMB745.3 million for the third quarter of 2008 from RMB426.3 million for the third quarter of 2007. Profit margin was 36.8% for the third quarter of 2008 compared to 40.3% for the third quarter of 2007.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 72.9% to RMB737.1 million for the third quarter of 2008 from RMB426.4 million for the third quarter of 2007.

## LIQUIDITY AND FINANCIAL RESOURCES

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

	<b>Unaudited</b>	
	<b>30 September</b>	30 June
	<b>2008</b>	2008
	<i>(RMB in thousands)</i>	
Cash and cash equivalents	<b>2,301,727</b>	2,263,418
Term deposits with initial term of over three months	<b>1,567,359</b>	1,127,551
Financial assets held for trading	<b>326,187</b>	409,443
Held-to-maturity investments	<b>68,183</b>	68,591
Total	<b><u>4,263,456</u></b>	<u>3,869,003</u>

*Note:* The above table excludes RMB300.0 million of restricted deposits pledged as part of a USD40.0 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 September 2008, RMB1,156 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. 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 30 September 2008.

## **BUSINESS OUTLOOK**

In the third quarter of 2008, we benefited from strong seasonality associated with school summer holidays and growth in revenue from online games launched in the previous quarter which operated for the full quarter. Internet value-added services grew broadly during July and August, when students had more time to spend online and consume our fee-based services. In addition, online games launched in the second quarter - DNF, QQ Dancer and Cross Fire - contributed to revenue growth as a result of full quarter effect. Our wireless value-added services grew as our bundled SMS subscriptions and mobile gaming services continued to gain popularity. Online advertising also benefited from regular seasonality. Compared to the third quarter, the fourth quarter would generally represent a weaker seasonality for our Internet value-added services and our online advertising business.

During the third quarter, financial markets worldwide were severely impaired by the financial tsunami which originated from sub-prime mortgage crisis in the US. As financial markets experienced volatilities unseen in recent history, financial assets depreciated across the board and credit shrank, the financial tsunami quickly degenerated into an economic crisis in the US with increasing unemployment, decreasing consumer confidence and declining corporate investments. The economic crisis has also been spreading to other parts of the world, with effects also felt in China. There are increasing signs that the Chinese economy is also slowing down as a result of challenging export environment, declining property prices and dismal stock market performance. We believe that the macroeconomic environment in which we operate is facing increasing uncertainties and growing chance of downturn over the near term. While it is difficult to assess what might be the impact of such potential downturn, we believe the value of the Internet as an enabling technology that increases efficiency and saves costs for people and its long-term prospect will remain intact. We also believe that our diversified business model can put us in a relatively better position compared to many other industries. For example, our Internet and wireless value-added services, which comprise small ticket consumption items, may be less vulnerable to an economic downturn. On the other hand, our online advertising business will be more affected than value-added services in a downturn as advertisers will be spending less on advertising as a whole. Despite our belief in the secular growth of the online advertising industry and our efforts to

continue to increase our market share in the overall market, growth in our online advertising business will inevitably slow down in an economic downturn. During this period of uncertainty, we will be monitoring our expenses and managing our risks rigorously. At the same time, we would still be making necessary investments in our business such that we can take advantage of the downturn to enhance our market position and emerge as an even stronger company when the macroeconomic environment improves.

In our core IM platform, our user base has continued to grow as a result of positive seasonal factors and our efforts to improve user experience through enhancing user security, software performance and functionalities. We continue to see positive usage trend in our IM service after school year starts as students add new friends they meet at school to their IM buddy lists.

Our QQ.com portal platform consolidated its position as the leading Internet media in China during the Beijing Olympics in August. During the historical event, QQ.com acted as the focal point in integrating our various Internet platforms, including our Qzone and WAP portal, and provided a comprehensive coverage of the event that included live video broadcast and on-demand video clips, live interviews of 26 Chinese gold medalists and more than 100,000 news articles. As a result of our efforts, traffic of QQ.com reached a record-breaking 1.1 billion page views a day during the event. Based on a survey conducted by AC Nielson, QQ.com claimed the number one spot in terms of reach and unique users during the event. Although we incurred approximately RMB56 million of additional content and marketing expenses in relation to the Beijing Olympics during the third quarter, we consider the money worth investing in QQ.com. We believe the tremendous success of QQ.com in the coverage of the event demonstrated Internet is increasingly recognised in China as a mainstream media, and strengthened the brand image of QQ.com as a leading media. We will leverage what we learnt and achieved in this event to further enhance the media influence and commercial value of QQ.com in the future.

Our non-game Internet value-added services benefited from the strong summer season across the board. In addition, QQ Membership benefited from growth in user stickiness as we continued to enhance its features and privileges included. Qzone also grew in terms of both user activity and monetization. During the quarter, we launched a major upgrade to Qzone, enhancing its functionality and customizability. The upgrade was well received by our users. For QQ Show, the transition from item sale to monthly subscription was more or less complete, with monthly subscription accounting for the vast majority of its revenue. We believe monthly subscription would allow us to test different ways to increase user activity and loyalty while, at the same time, reducing the seasonality of the product. For QQ Pet, we continued with the long term overhaul of the product, platform, and user experience but the effect of it may not be seen for a few more quarters.

In our online game business, our QQ Game platform continued its organic growth in both usage and monetization with additional help from positive summer seasonality. In MMOG, our major licensed title, DNF, which was launched in mid-June, achieved a PCU of more than 700,000 by the end of September. The ramp-up and full quarter effect of DNF made significant contribution to the growth in our gaming revenue. In advanced casual games, where seasonal factors generally have a bigger impact, revenue increased across all our games. QQ Dancer, a dancing game developed by a majority owned studio, and Cross Fire, a first person shooting game developed by a third party Korean developer, were both successful in their launch and contributed to the growth in our gaming business. On a combined basis, total PCU in advanced casual games reached 1.4 million, an increase of 30.6% compared to the previous quarter. The success of licensed titles such as DNF and Cross Fire increased our revenue and profits but decreased our margins as we have to share revenue with the developer of the games. Looking into the fourth quarter, we have just launched our first 3D MMOG, Journey to Fairyland, licensed from a local developer. The initial response of users to this game is encouraging. Our successful game launches across a broad range of genres during the year demonstrated the significant advantage of our platform strategy compared to standalone game businesses. Our leading Internet and mini-casual game platforms were very effective in attracting new gamers, retaining existing gamers and encouraging them to recommend games they are playing to their friends. We will continue to leverage this platform advantage and launch more licensed and self-developed games in the coming year.

Our wireless business registered steady growth during the quarter as our bundled SMS subscriptions and mobile gaming services increased in their popularity among our users. Looking forward, we will continue to focus on enhancing our products and building closer relationship with our operator partners to position us for longer term growth in this business.

In online advertising business, our revenue increased as we benefited from positive seasonality in the summer season. While the Beijing Olympics have definitely made a positive long-term impact to our business, its contribution to additional revenue during the quarter was largely offset by the reduction in spending from other advertisers who deliberately wanted to avoid the expensive Olympics period. As we look into the fourth quarter and the coming year, we are getting increasingly cautious on the short-term outlook of the advertising market as a whole given the significant economic crisis in the US and the economic slowdown in China. While we believe the long-term secular growth trend of Internet advertising is still intact, the drag of the overall advertising market may dampen its growth in the near term. To cope with the potential challenges ahead, we would focus on improving our technology

platform and advertising products to increase return on investments for advertisers, enhancing our sales and service team to provide more professional services to our advertisers, and strengthening our leadership in more resilient advertising segments such as food and beverages, apparels and online games.

## **Other Information**

### ***Employee and Remuneration Policies***

As at 30 September 2008, the Group had 6,039 employees (30 September 2007: 3,688), 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 three months ended 30 September 2008 was RMB 402.8 million (for the three months ended 30 September 2007: RMB192.8 million).

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

During the three months ended 30 September 2008, the Company repurchased 2,283,600 shares on the Stock Exchange for an aggregate consideration of HKD130,755,000 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:

<b>Month of purchase on the Stock Exchange in the three months ended 30 September 2008</b>	<i>Number of shares repurchased</i>	<i>Purchase consideration per share</i>		<i>Aggregate consideration paid</i>
		<i>Highest price paid</i>	<i>Lowest price paid</i>	
		<i>HKD</i>	<i>HKD</i>	<i>HKD'000</i>
September	<u>2,283,600</u>	63.25	47.05	<u>130,755</u>

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30 September 2008.



### ***Intention to Repurchase the Company's Listed Securities***

At the annual general meeting of the Company held on 14 May 2008, shareholders of the Company granted to the Board, among others, a general mandate to repurchase a maximum of 179,368,785 shares. In addition to the share repurchase details announced since May 2008 and with a view to enhance shareholders' value, the Company currently intends to repurchase shares of the Company on-market for an additional amount up to USD100 million pursuant to the general mandate and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### **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 nine months ended 30 September 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 three and nine months ended 30 September 2008, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to 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 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, 12 November 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.*