

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2011**

The Board is pleased to announce the unaudited consolidated results of the Group for the three and nine months ended 30 September 2011. These interim results have been reviewed by the Auditor in accordance with the International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

		Unaudited 30 September 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Fixed assets		5,491,024	3,292,828
Construction in progress		97,732	386,943
Investment properties		21,985	37,229
Land use rights		232,124	229,890
Intangible assets		3,311,099	572,981
Investment in associates		3,812,118	1,070,633
Investment in jointly controlled entities		116,381	74,542
Deferred income tax assets		180,289	219,019
Available-for-sale financial assets	3	4,644,548	4,126,878
Prepayments, deposits and other assets		<u>2,375,624</u>	<u>445,430</u>
		20,282,924	10,456,373
Current assets			
Accounts receivable	4	2,444,705	1,715,412
Prepayments, deposits and other assets		1,548,191	487,872
Term deposits with initial term of over three months		13,011,238	11,725,743
Restricted cash		4,496,249	1,036,457
Cash and cash equivalents		<u>6,978,825</u>	<u>10,408,257</u>
		28,479,208	25,373,741
Total assets		<u>48,762,132</u>	<u>35,830,114</u>

		Unaudited	Audited
		30 September	31 December
		2011	2010
	Note	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		198	198
Share premium		301,931	1,100,302
Shares held for share award scheme		(454,535)	(258,137)
Share-based compensation reserve		1,713,827	1,199,663
Other reserves		336,272	1,919,695
Retained earnings		<u>24,612,992</u>	<u>17,795,225</u>
		26,510,685	21,756,946
Non-controlling interests		<u>231,844</u>	<u>83,912</u>
Total equity		<u>26,742,529</u>	<u>21,840,858</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		966,329	967,211
Long-term payables		<u>2,339,143</u>	<u>—</u>
		<u>3,305,472</u>	<u>967,211</u>
Current liabilities			
Accounts payable	6	2,025,386	1,380,464
Other payables and accruals		3,815,837	2,997,808
Derivative financial instruments	7	31,639	17,964
Short-term borrowings	7	7,407,150	5,298,947
Current income tax liabilities		566,990	341,103
Other tax liabilities		239,630	225,188
Deferred revenue		<u>4,627,499</u>	<u>2,760,571</u>
		<u>18,714,131</u>	<u>13,022,045</u>
Total liabilities		<u>22,019,603</u>	<u>13,989,256</u>
Total equity and liabilities		<u>48,762,132</u>	<u>35,830,114</u>
Net current assets		<u>9,765,077</u>	<u>12,351,696</u>
Total assets less current liabilities		<u>30,048,001</u>	<u>22,808,069</u>

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2011**

		Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2011	2010	2011	2010
Note		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues					
		6,003,135	4,129,008	16,640,995	11,098,361
		844,900	695,057	2,416,531	1,987,415
		600,572	382,542	1,393,778	984,396
		47,550	20,021	122,317	51,696
		7,496,157	5,226,628	20,573,621	14,121,868
	9	(2,661,407)	(1,676,544)	(7,186,773)	(4,487,838)
		4,834,750	3,550,084	13,386,848	9,634,030
		124,159	65,259	331,367	176,455
	8	9,200	22,479	351,078	14,619
	9	(507,252)	(227,817)	(1,177,196)	(643,574)
	9	(1,469,278)	(744,092)	(3,730,116)	(1,995,819)
		2,991,579	2,665,913	9,161,981	7,185,711
		43,097	3,431	40,999	(1,103)
		(21,842)	10,985	39,466	35,232
		(59,926)	—	(124,912)	—
		2,952,908	2,680,329	9,117,534	7,219,840
	10	(506,760)	(512,013)	(1,443,906)	(1,317,913)
		2,446,148	2,168,316	7,673,628	5,901,927

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2011	2010	2011	2010
Note		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:					
	Equity holders of the Company	2,446,437	2,153,111	7,666,057	5,852,807
	Non-controlling interests	<u>(289)</u>	<u>15,205</u>	<u>7,571</u>	<u>49,120</u>
		<u>2,446,148</u>	<u>2,168,316</u>	<u>7,673,628</u>	<u>5,901,927</u>
Earnings per share for profit					
attributable to equity holders of					
the Company (expressed in RMB per share)					
	- basic	11	<u>1.340</u>	<u>1.185</u>	<u>4.204</u>
	- diluted	11	<u>1.314</u>	<u>1.159</u>	<u>4.113</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2011**

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>2,446,148</u>	<u>2,168,316</u>	<u>7,673,628</u>	<u>5,901,927</u>
Other comprehensive income, net of tax:				
Net losses from changes in fair value of available-for-sale financial assets	(491,093)	—	(909,249)	—
Currency translation differences	<u>(13,322)</u>	<u>—</u>	<u>(13,189)</u>	<u>—</u>
	<u>(504,415)</u>	<u>—</u>	<u>(922,438)</u>	<u>—</u>
Total comprehensive income for the period	<u>1,941,733</u>	<u>2,168,316</u>	<u>6,751,190</u>	<u>5,901,927</u>
Attributable to:				
Equity holders of the Company	1,942,022	2,153,111	6,743,619	5,852,807
Non-controlling interests	<u>(289)</u>	<u>15,205</u>	<u>7,571</u>	<u>49,120</u>
	<u>1,941,733</u>	<u>2,168,316</u>	<u>6,751,190</u>	<u>5,901,927</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011**

	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>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2011	<u>198</u>	<u>1,100,302</u>	<u>(258,137)</u>	<u>1,199,663</u>	<u>1,919,695</u>	<u>17,795,225</u>	<u>21,756,946</u>	<u>83,912</u>	<u>21,840,858</u>
Comprehensive income									
Profit for the period	-	-	-	-	-	7,666,057	7,666,057	7,571	7,673,628
Other comprehensive income:									
- net losses from changes in fair value of available-for-sale financial assets	-	-	-	-	(909,249)	-	(909,249)	-	(909,249)
- currency translation differences	-	-	-	-	(13,189)	-	(13,189)	-	(13,189)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(922,438)</u>	<u>7,666,057</u>	<u>6,743,619</u>	<u>7,571</u>	<u>6,751,190</u>
Transactions with owners									
Capital injection	-	-	-	-	-	-	-	9,800	9,800
Employee share option schemes:									
- value of employee services	-	-	-	117,416	-	-	117,416	-	117,416
- proceeds from shares issued	-	129,214	-	-	-	-	129,214	-	129,214
Employee share award scheme:									
- value of employee services	-	-	-	396,748	-	-	396,748	-	396,748
- shares purchased for share award scheme	-	-	(276,575)	-	-	-	(276,575)	-	(276,575)
- vesting of awarded shares	-	(80,177)	80,177	-	-	-	-	-	-
Repurchase and cancellation of shares	-	(847,408)	-	-	-	-	(847,408)	-	(847,408)
Dividends	-	-	-	-	-	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	-	-	-	-	10,000	(10,000)	-	-	-
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	187,092	187,092
Recognition of financial liabilities in respect of the put options granted to non-controlling interests owners	-	-	-	-	(670,985)	-	(670,985)	-	(670,985)
Total transactions with owners for the period	<u>-</u>	<u>(798,371)</u>	<u>(196,398)</u>	<u>514,164</u>	<u>(660,985)</u>	<u>(848,290)</u>	<u>(1,989,880)</u>	<u>140,361</u>	<u>(1,849,519)</u>
Balance at 30 September 2011	<u>198</u>	<u>301,931</u>	<u>(454,535)</u>	<u>1,713,827</u>	<u>336,272</u>	<u>24,612,992</u>	<u>26,510,685</u>	<u>231,844</u>	<u>26,742,529</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>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2010	197	1,244,425	(123,767)	703,563	(166,364)	10,520,453	12,178,507	120,146	12,298,653
Profit/Total comprehensive income for the period	—	—	—	—	—	5,852,807	5,852,807	49,120	5,901,927
Transactions with owners									
Employee share option schemes:									
- value of employee services	—	—	—	95,139	—	—	95,139	—	95,139
- proceeds from shares issued	1	158,425	—	—	—	—	158,426	—	158,426
Employee share award scheme:									
- value of employee services	—	—	—	256,712	—	—	256,712	—	256,712
- shares purchased for share award scheme	—	—	(135,222)	—	—	—	(135,222)	—	(135,222)
- vesting of awarded shares	—	(26,297)	26,297	—	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	—	6,329	(6,329)	—	—	—
Repurchase and cancellation of shares	—	(310,222)	—	—	—	—	(310,222)	—	(310,222)
Dividends	—	—	—	—	—	(639,264)	(639,264)	(63,292)	(702,556)
Reversal of financial liabilities in respect of the put options granted to non-controlling interests owners	—	—	—	—	94,246	—	94,246	—	94,246
Acquisition of additional interests in a subsidiary	—	—	—	—	156,273	(125,178)	31,095	(31,095)	—
Total transactions with owners for the period	<u>1</u>	<u>(178,094)</u>	<u>(108,925)</u>	<u>351,851</u>	<u>256,848</u>	<u>(770,771)</u>	<u>(449,090)</u>	<u>(94,387)</u>	<u>(543,477)</u>
Balance at 30 September 2010	<u>198</u>	<u>1,066,331</u>	<u>(232,692)</u>	<u>1,055,414</u>	<u>90,484</u>	<u>15,602,489</u>	<u>17,582,224</u>	<u>74,879</u>	<u>17,657,103</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011**

	Unaudited	
	Nine months ended	
	30 September	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	9,092,191	8,564,700
Net cash flows used in investing activities	(12,810,210)	(9,524,104)
Net cash flows generated from financing activities	<u>401,616</u>	<u>2,646,343</u>
Net (decrease)/increase in cash and cash equivalents	(3,316,403)	1,686,939
Cash and cash equivalents at beginning of period	10,408,257	6,043,696
Exchange losses on cash and cash equivalents	<u>(113,029)</u>	<u>(18,523)</u>
Cash and cash equivalents at end of period	<u>6,978,825</u>	<u>7,712,112</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	5,332,070	4,001,590
Term deposits and highly liquid investments with initial term within three months	<u>1,646,755</u>	<u>3,710,522</u>
	<u>6,978,825</u>	<u>7,712,112</u>

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 since 16 June 2004.

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

The consolidated statement of financial position as at 30 September 2011, the related consolidated income statement and the consolidated statement of comprehensive income for the three and nine months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 9 November 2011.

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

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2010 (the “2010 Financial Statements”) as set out in the 2010 annual report of the Company dated 16 March 2011.

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2010 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

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

Amendment to IAS 34 ‘Interim Financial Reporting’ is effective for annual periods beginning on or after 1 January 2011. It focuses on the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements have been put in place to cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The amendment to IAS 34 only results in additional disclosures. The Group has applied this amendment from 1 January 2011.

2 Segment Information

The Group has the following reportable segments for the three and nine months ended 30 September 2011 and 2010:

- IVAS;
- MVAS;
- Online advertising; and
- Others.

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

There were no inter-segment sales during the three and nine months ended 30 September 2011 and 2010. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three and nine months ended 30 September 2011 and 2010 is as follows:

	Unaudited				
	Three months ended 30 September 2011				
	IVAS	MVAS	Online	Others	Total
	RMB'000	RMB'000	advertising	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues (revenues from external customers)	<u>6,003,135</u>	<u>844,900</u>	<u>600,572</u>	<u>47,550</u>	<u>7,496,157</u>
Gross profit/(losses)	<u>3,964,044</u>	<u>495,175</u>	<u>399,001</u>	<u>(23,470)</u>	<u>4,834,750</u>
Depreciation	196,480	16,756	15,567	11,937	240,740
Amortisation	26,307	–	–	–	26,307
Share of (losses)/profit of associates	(22,859)	1,017	–	–	(21,842)
Share of losses of jointly controlled entities	<u>(59,926)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(59,926)</u>

	Unaudited				
	Three months ended 30 September 2010				
	IVAS	MVAS	Online	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	advertising <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>4,129,008</u>	<u>695,057</u>	<u>382,542</u>	<u>20,021</u>	<u>5,226,628</u>
Gross profit/(losses)	<u>2,864,257</u>	<u>427,095</u>	<u>267,698</u>	<u>(8,966)</u>	<u>3,550,084</u>
Depreciation	100,062	9,617	5,110	3,846	118,635
Amortisation	3,428	—	—	—	3,428
Share of profit/(losses) of associates	<u>11,217</u>	<u>(232)</u>	<u>—</u>	<u>—</u>	<u>10,985</u>

	Unaudited				
	Nine months ended 30 September 2011				
	IVAS	MVAS	Online	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	advertising <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>16,640,995</u>	<u>2,416,531</u>	<u>1,393,778</u>	<u>122,317</u>	<u>20,573,621</u>
Gross profit/(losses)	<u>11,071,516</u>	<u>1,446,852</u>	<u>905,479</u>	<u>(36,999)</u>	<u>13,386,848</u>
Depreciation	497,385	42,068	39,673	23,945	603,071
Amortisation	39,904	—	—	—	39,904
Share of profit of associates	39,441	25	—	—	39,466
Share of losses of jointly controlled entities	<u>(124,912)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(124,912)</u>

	Unaudited				
	Nine months ended 30 September 2010				
	IVAS	MVAS	Online	Others	Total
		advertising			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>11,098,361</u>	<u>1,987,415</u>	<u>984,396</u>	<u>51,696</u>	<u>14,121,868</u>
Gross profit/(losses)	<u>7,720,650</u>	<u>1,256,013</u>	<u>681,181</u>	<u>(23,814)</u>	<u>9,634,030</u>
Depreciation	253,997	24,841	13,376	9,846	302,060
Amortisation	34,105	—	—	—	34,105
Share of profit of associates	<u>31,578</u>	<u>3,654</u>	<u>—</u>	<u>—</u>	<u>35,232</u>

3 Available-for-sale financial assets

	Unaudited	
	Nine months ended	
	30 September	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of period	4,126,878	153,462
Additions	1,430,149	2,165,517
Net losses recognised in other comprehensive income	(912,479)	—
Transfer to investment in associates	<u>—</u>	<u>(26,809)</u>
At end of period	<u>4,644,548</u>	<u>2,292,170</u>
Market value of listed securities (Note (a), (b) & (c))	<u>3,509,697</u>	<u>—</u>

Notes:

- (a) As at 30 September 2011, the Group held 16,228,000 ordinary shares in Mail.ru Group Limited, a company listed on the London Stock Exchange, representing approximately 7.78% economic interest in the company.

- (b) As at 30 September 2011, the Group held 27,800,000 ordinary shares in Huayi Brothers Media Corporation, a company listed on the Shenzhen Stock Exchange, representing approximately 4.60% equity interest in the company.
- (c) As at 30 September 2011, the Group held 658,750,000 ordinary shares in Media Asia Group Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, representing approximately 5.01% equity interest in the company.

As at 30 September 2011, there were certain call options embedded in some of these available-for-sale financial assets. The directors of the Company have considered that the fair value of such call options was insignificant and accordingly, the Group did not separately recognise these call options in the Interim Financial Information.

4 Accounts receivable

	Unaudited	Audited
	30 September	31 December
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	1,312,413	931,438
31 - 60 days	412,751	331,922
61 - 90 days	274,730	143,785
Over 90 days but less than one year	<u>444,811</u>	<u>308,267</u>
	<u>2,444,705</u>	<u>1,715,412</u>

Receivable balances as at 30 September 2011 mainly represented amounts due from telecommunication operators, including China Mobile, China United Network Communications Corporation Limited, China Telecommunications Corporation and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

While there are no contractual requirements for the telecommunication operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

5 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

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

(ii) Post-IPO Option Scheme I

This was terminated upon the adoption of the Post-IPO Option Scheme II as mentioned below.

(iii) Post-IPO Option Scheme II

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

(iv) Post-IPO Option Scheme III

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

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2010	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	-	-	55,798,405
Granted	-	-	-	-	HKD138.3689	2,708,350	HKD158.5000	1,000,000	3,708,350
Exercised	USD0.0761	(1,088,100)	HKD9.7552	(10,596,957)	HKD42.9947	(1,778,703)	-	-	(13,463,760)
Lapsed	-	-	HKD17.9514	(210,203)	HKD52.7582	(212,574)	-	-	(422,777)
At 30 September 2010	USD0.0884	<u>776,968</u>	HKD12.7210	<u>14,134,758</u>	HKD53.7478	<u>29,708,492</u>	HKD158.5000	<u>1,000,000</u>	<u>45,620,218</u>
Exercisable as at 30 September 2010	USD0.0884	<u>776,968</u>	HKD10.8463	<u>11,592,918</u>	HKD41.2209	<u>6,885,484</u>	-	-	<u>19,255,370</u>
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	-	-	-	-	HKD191.1886	771,175	-	-	771,175
Exercised	USD0.0898	(550,620)	HKD12.1124	(2,472,173)	HKD44.9194	(2,770,830)	-	-	(5,793,623)
Lapsed	-	-	HKD6.0211	(5,534)	HKD53.4612	(171,416)	-	-	(176,950)
At 30 September 2011	USD0.2547	<u>12,573</u>	HKD13.0400	<u>10,328,056</u>	HKD59.9379	<u>26,624,097</u>	HKD158.5000	<u>1,000,000</u>	<u>37,964,726</u>
Exercisable as at 30 September 2011	USD0.2041	<u>12,573</u>	HKD11.8607	<u>9,119,636</u>	HKD42.7095	<u>9,134,396</u>	-	-	<u>18,266,605</u>

Note:

During the nine months ended 30 September 2011, no share option (during the nine months ended 30 September 2010: 1,000,000 options) was granted to any directors of the Company.

(b) **Share award scheme**

The Company has adopted a share award scheme (the “Share Award Scheme”), which is managed by the Trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the nine months ended 30 September 2011 and 2010 are as follows:

	Numbers of shares held for the Share Award Scheme	Numbers of awarded shares
At 1 January 2010	10	10,411,424
Purchased	972,483	–
Allotted	3,662,975	–
Granted	(4,635,388)	4,635,388
Vested	<u>–</u>	<u>(1,495,680)</u>
At 30 September 2010	<u>80</u>	<u>13,551,132</u>
Exercisable as at 30 September 2010		<u>177,861</u>
At 1 January 2011	80	13,562,734
Purchased (Note (i))	1,640,090	–
Shares to be allotted to the Share Award Scheme (Note (ii))	4,045,360	–
Granted (Note (iii))	(5,685,530)	5,685,530
Vested	<u>–</u>	<u>(2,426,559)</u>
At 30 September 2011	<u>–</u>	<u>16,821,705</u>
Exercisable as at 30 September 2011		<u>13,704</u>

Notes:

- (i) During the nine months ended 30 September 2011, the Trustee acquired 1,640,090 ordinary shares of the Company in the open market, and the Group granted such shares to eligible persons. The total amount paid for the acquisition of the ordinary shares was HKD329,685,000 (equivalent to approximately RMB276,575,000) and had been deducted from shareholder’s equity.

- (ii) On 15 August 2011, the Company made an announcement under which a total of 4,045,360 Awarded Shares were awarded to 2,016 Awarded Persons by way of allotment of new Shares of the Company pursuant to the Scheme (the “Announcement”). The Announcement mentioned that “none of the Trustee and all the Awarded Persons and their respective ultimate beneficial owners, if any, is an Excluded Person for the purpose of the Scheme as at the time of granting the Awarded Shares”. The Trustee and all the Awarded Persons and their respective ultimate beneficial owners, if any, were third parties independent of the Company and were not connected persons of the Company, and none of them was a director or a substantial shareholder of the Group, as defined under the Listing Rules as at the time of granting the awarded shares. The procedures associated with the share allotment had not been completed as at 30 September 2011.

For the purpose of this note only, all terms used have the same meaning as defined in the Announcement.

- (iii) During the nine months ended 30 September 2011, 35,000 awarded shares (during the nine months ended 30 September 2010: Nil) were granted to independent non-executive directors of the Company.

6 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 September 2011 <i>RMB'000</i>	Audited 31 December 2010 <i>RMB'000</i>
0 - 30 days	1,452,870	975,869
31 - 60 days	340,149	242,547
61 - 90 days	23,682	68,632
Over 90 days but less than one year	<u>208,685</u>	<u>93,416</u>
	<u>2,025,386</u>	<u>1,380,464</u>

7 Short-term borrowings

	Unaudited 30 September 2011 RMB'000	Audited 31 December 2010 <i>RMB'000</i>
Bank borrowings accounted for as RMB borrowings (Note (a))		
- Secured (Note (b))	2,958,720	990,887
- Unsecured	<u>—</u>	<u>334,440</u>
	2,958,720	1,325,327
USD bank borrowings		
- Unsecured (Note (c))	3,812,940	3,973,620
Bonds		
- Unsecured (Note (d))	<u>635,490</u>	<u>—</u>
	<u>7,407,150</u>	<u>5,298,947</u>

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

	Unaudited Nine months ended 30 September 2011 RMB'000	2010 <i>RMB'000</i>
At beginning of period	5,298,947	202,322
Additions of bank borrowings	5,389,827	3,880,057
Issuance of bonds	657,520	—
Repayments of borrowings	(3,765,941)	(202,322)
Exchange impact	<u>(173,203)</u>	<u>(41,817)</u>
At end of period	<u>7,407,150</u>	<u>3,838,240</u>

Notes:

- (a) These bank borrowings were denominated in USD according to the loan agreements executed with the lending banks. The aggregate principal amount was USD460,000,000 and the interest rates were fixed at 2.78% to 3.54% per annum. These borrowings will be repaid in full in USD and the term for each of these borrowings is one year. Concurrently, foreign exchange forward contracts were arranged with the same banks as at the respective initial borrowing dates in order to enable the Group to purchase the required amount of USD with RMB for settling the principal amount of the borrowings plus related interest upon the respective loan due dates. The bank borrowings and the foreign exchange forward contracts are deemed as linked transactions and accordingly, the bank borrowings have effectively been accounted for as borrowings denominated in RMB.

These bank borrowings and the forward contracts were transacted on the belief that, despite the associated interest expenses to be incurred, the Group would benefit from the interest income from the restricted cash (Note (b)) and the cash increase as a result of the unsecured bank borrowings, as well as the fixed exchange gains arising from the bank borrowings (which are calculated as the difference between the forward rate stated in the contracts and the respective spot rates at the borrowing dates).

- (b) Bank borrowings of carrying amounts of RMB2,958,720,000 were secured by a pledge of bank deposits of RMB3,071,621,000.
- (c) Unsecured bank borrowings of carrying amount of RMB3,812,940,000 as at 30 September 2011 were also denominated in USD. The aggregate principal amount was USD600,000,000 and the interest rates were fixed at 1.20% to 1.59% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the borrowings upon the respective loan due dates. However, the Group arranged the bank loans and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and relevant foreign exchange forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other gains/(losses), net” in the consolidated income statement.
- (d) During the nine months ended 30 September 2011, the Group issued USD denominated unsecured bonds at par value of USD100,000,000 (equivalent to approximately RMB 635,490,000). The bonds bear a floating rate of LIBOR plus 0.25% per annum and will mature in March 2012.

The fair value of the short-term borrowings approximated to their carrying amounts as at 30 September 2011.

8 Other gains, net

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gains on deemed disposal of an associate	—	—	459,037	—
(Losses)/Gains from derivative financial instruments	(29,983)	(10,965)	(74,852)	6,613
Government subsidies	26,063	37,599	41,051	51,133
Donation to Tencent Charity Fund	—	(30,000)	(100,000)	(70,000)
Others	13,120	25,845	25,842	26,873
	<u>9,200</u>	<u>22,479</u>	<u>351,078</u>	<u>14,619</u>

9 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (Note)	1,356,958	842,167	3,566,910	2,238,066
Content costs and agency fees	1,283,609	751,075	3,520,386	1,943,029
Mobile and telecom charges and bandwidth and server custody fees	689,880	546,943	1,901,948	1,537,147
Depreciation of fixed assets (Note)	323,167	175,375	817,711	469,967
Promotion and advertising expenses	357,337	127,650	804,341	364,974
Amortisation of intangible assets	222,163	21,483	498,024	84,578
Operating lease rentals in respect of office buildings	98,773	27,205	238,123	67,754
Travelling and entertainment expenses	66,865	31,780	144,414	84,644
Other expenses	239,185	124,775	602,228	337,072
	<u>4,637,937</u>	<u>2,648,453</u>	<u>12,094,085</u>	<u>7,127,231</u>

Note:

Research and development expenses were RMB737,195,000 and RMB1,922,173,000 for the three and nine months ended 30 September 2011, respectively (for the three and nine months ended 30 September 2010: RMB450,744,000 and RMB1,209,174,000, respectively) which included employee benefit expenses of RMB633,132,000 and depreciation of fixed assets of RMB73,299,000 for the three months ended 30 September 2011 (for the three months ended 30 September 2010: RMB386,096,000 and RMB49,501,000, respectively) and employee benefit expenses of RMB1,655,235,000 and depreciation of fixed assets of RMB189,590,000 for the nine months ended 30 September 2011 (for the nine months ended 30 September 2010: RMB1,012,346,000 and RMB147,010,000, respectively).

10 Income tax expense

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

(a) Cayman Islands and British Virgin Islands corporate tax

The Group was not subject to any taxation in these jurisdictions for the three and nine months ended 30 September 2011 and 2010.

(b) **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 three and nine months ended 30 September 2011 and 2010.

(c) **PRC 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 (the "CIT Law"), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

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

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

In 2008, certain subsidiaries of the Company in the PRC were approved as High/New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2008 to 2010 according to the applicable CIT Law. As at 30 September 2011, these subsidiaries were in the process of renewing such entitlements by applying to the relevant government authorities. The directors of the Company expect that they will continue to be approved as High/New Technology Enterprise. As such, CIT rate of 15% was adopted by these subsidiaries in accruing their CIT for the three and nine months ended 30 September 2011.

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

(d) **United States corporate tax**

No United States corporate tax has been provided as the Group had no taxable income arising in the United States for the three and nine months ended 30 September 2011 and 2010.

(e) **PRC withholding tax on dividend**

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

The income tax expense of the Group for the three and nine months ended 30 September 2011 and 2010 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	485,056	357,577	1,345,291	1,023,635
Deferred tax	<u>21,704</u>	<u>154,436</u>	<u>98,615</u>	<u>294,278</u>
	<u>506,760</u>	<u>512,013</u>	<u>1,443,906</u>	<u>1,317,913</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 24% for the three and nine months ended 30 September 2011 (for the three and nine months ended 30 September 2010: 22%), being the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	2,952,908	2,680,329	9,117,534	7,219,840
Share of losses/(profit) of associates	21,842	(10,985)	(39,466)	(35,232)
Share of losses of jointly controlled entities	59,926	—	124,912	—
	<u>3,034,676</u>	<u>2,669,344</u>	<u>9,202,980</u>	<u>7,184,608</u>
Tax calculated at a tax rate of 24% (for the three and nine months ended 30 September 2010: 22%)	728,322	587,256	2,208,715	1,580,614
Effects of different tax rates applicable to different subsidiaries of the Group	(227,012)	(77,448)	(760,232)	(242,876)
Effects of tax holiday on assessable profit of subsidiaries	(117,826)	(172,238)	(367,402)	(376,753)
Income not subject to tax	(5,930)	(5,791)	(17,593)	(11,049)
Expenses not deductible for tax purposes	42,493	28,907	156,372	78,823
Withholding tax on earnings expected to be remitted by the PRC subsidiaries	81,000	142,000	222,500	257,000
Unrecognised deferred income tax assets/(Utilisation of previously unrecognised deferred income tax assets)	8,462	9,327	63,790	32,154
Adjustments in respect of prior year	(2,749)	—	(62,244)	—
Income tax expense	<u>506,760</u>	<u>512,013</u>	<u>1,443,906</u>	<u>1,317,913</u>

11 EPS

(a) Basic

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>2,446,437</u>	<u>2,153,111</u>	<u>7,666,057</u>	<u>5,852,807</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,825,190</u>	<u>1,817,586</u>	<u>1,823,638</u>	<u>1,815,736</u>
Basic EPS (RMB per share)	<u>1.340</u>	<u>1.185</u>	<u>4.204</u>	<u>3.223</u>

(b) **Diluted**

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>2,446,437</u>	<u>2,153,111</u>	<u>7,666,057</u>	<u>5,852,807</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,825,190	1,817,586	1,823,638	1,815,736
Adjustments for share options (thousand shares)	27,709	32,743	30,089	36,095
Adjustments for awarded shares (thousand shares)	<u>8,935</u>	<u>7,335</u>	<u>10,331</u>	<u>7,503</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,861,834</u>	<u>1,857,664</u>	<u>1,864,058</u>	<u>1,859,334</u>
Diluted EPS (RMB per share)	<u>1.314</u>	<u>1.159</u>	<u>4.113</u>	<u>3.148</u>

12 Dividend

A final dividend in respect of the year ended 31 December 2010 of HKD0.55 per share (2009: HKD0.40 per share) was proposed pursuant to a resolution passed by the Board on 16 March 2011 and approved by shareholders at the annual general meeting of the Company held on 11 May 2011. Such dividend, totalling HKD1,010,294,000 (equivalent to approximately RMB838,290,000) (final dividend for 2009: HKD727,180,000 (equivalent to approximately RMB639,264,000)), had been paid as at 30 September 2011.

The Board did not propose any interim dividend for the nine months ended 30 September 2011 (for the nine months ended 30 September 2010: Nil).

13 Business Combination

The Riot Games Acquisition

(a) Step-up business combination

On 18 February 2011 (the “Closing Date”), the Group acquired a majority equity interest in Riot Games from its existing stakeholders including the founders of Riot Games, for a cash consideration of USD231,465,000 (equivalent to approximately RMB1,524,632,000), together with other cash and non-cash consideration related to the put options mentioned below. Immediately before the Riot Games Acquisition, the Group held 22.34% equity interest (the “Previously Held Interest”) in Riot Games and it was reported as an investment in associate. Immediately after the Riot Games Acquisition, the Group held 8,209,473 shares, representing 92.78% equity interest in Riot Games. Riot Games operates a stock plan established before the Closing Date, pursuant to which, Riot Games may grant share options or special restricted stock units (“RSUs”) to its eligible employees (the “Eligible Persons”). As at the Closing Date, all share options and RSUs held by the Eligible Persons, both vested and unvested, amounted to a total of 2,040,456 shares in addition to the issued shares. In addition, according to the stock plan, 2,009,000 share options or RSUs may be further granted to the Eligible Persons as appropriate. After the Riot Games Acquisition, Riot Games was accounted for as a subsidiary of the Company. Riot Games continues to operate independently under the leadership of its founders and local management team.

A goodwill of RMB1,932,376,000 was recognised as a result of the Riot Games Acquisition. It is mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations of the Group and Riot Games. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interest in Riot Games (the “Non-controlling Interest”) at fair value on the Closing Date. The following table summarises the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed or recognised as at the Closing Date.

	<i>RMB'000</i>
Considerations:	
Cash consideration paid/payable for additional equity interest in Riot Games	1,524,632
Deemed consideration arising from the grant of put options on Riot Games' existing share options	<u>154,732</u>
Total considerations	1,679,364
Fair value of the Previously Held Interest	576,539
Fair value of the Non-controlling Interest	<u>187,092</u>
	<u>2,442,995</u>

RMB'000

Recognised amounts of identifiable assets acquired and liabilities assumed:

Current assets	101,135
Fixed assets	14,690
Existing game licenses and other acquired intangible assets	671,803
Deferred revenue	(2,627)
Other payables and accruals	(4,589)
Deferred income tax liabilities	<u>(269,793)</u>
Total identifiable net assets	510,619
Goodwill	<u>1,932,376</u>
	<u><u>2,442,995</u></u>
Acquisition-related costs (Note)	<u><u>54,400</u></u>

Note:

The acquisition-related costs are included in general and administrative expenses in the consolidated income statement for the nine months ended 30 September 2011.

The Riot Games Acquisition was treated as a step-up business combination. As a result, a deemed disposal gain of RMB459,037,000, being the difference between the fair value of the Previously Held Interest as at the Closing Date and its then carrying value of RMB117,502,000, was recorded as “Other gains, net” in the consolidated income statement for the nine months ended 30 September 2011.

For the period from the Closing Date to 30 September 2011, Riot Games contributed revenues of RMB190,784,000 and a net loss of RMB653,345,000 to the Group, which included expenses arising from the Riot Games Acquisition, including amortisation of intangible assets acquired, related deferred tax impact and share-based compensation related to the arrangements mentioned below. The revenue and net loss contributed by Riot Games to the Group would not be materially different from the aforesaid reported figures if the Riot Games Acquisition had occurred on 1 January 2011.

(b) Other arrangements associated with the Riot Games Acquisition

In connection with the Riot Games Acquisition, the Group offered, among others, certain share options and RSUs of Riot Games to the Eligible Persons before the Closing Date. Certain Eligible Persons were also granted by the Group cash bonus and put options so that they are entitled to sell to the Group their respective retained equity interests in Riot Games, and all the Eligible Persons are entitled to sell to the Group their shares acquired after the exercise of the vested share options and RSUs granted on or before the Closing Date by Riot Games. These put options will be exercisable for a period of up to 10 years following the Closing Date, subject to certain conditions.

The grant of the put options on the share options owned by the Eligible Persons before the acquisition (the “Existing Share Options”) was accounted for as a modification of the options as at the Riot Games Acquisition. The portion of fair value of the Existing Share Options, assessed at the Closing Date, attributable to the service period before the acquisition (amounting to RMB154,732,000) was treated as part of the purchase consideration for the acquisition. The remaining portion of the fair value will be recorded as employee costs throughout the future vesting period.

In addition, the grants of share options and RSUs of Riot Games, together with the put feature mentioned above, on the Closing Date have been accounted for as a grant of a compound instrument to the Eligible Persons. They will be accounted for as employee costs throughout the vesting period.

The aforesaid cash bonus and share-based compensation expense recorded as employee costs in the consolidated income statements for the three and nine months ended 30 September 2011 were not material.

The grant of the put options for the retained interest of the Eligible Persons was accounted for as a transaction undertaken with the non-controlling shareholders. The Group recognised, as at the Closing Date, the relevant financial liabilities based on the present value of estimated future cash out flow that the Group is required to honour the put option obligations, together with a debit to other reserve within equity of the Group.

OPERATING INFORMATION

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

	As at 30 September 2011	As at 30 June 2011	Quarter- on-quarter percentage change	Year- on-year percentage change
	<i>(in millions)</i>			
Active IM user accounts	711.7	701.9	1.4%	11.8%
Peak simultaneous online IM user accounts (for the quarter)	145.4	136.7	6.4%	22.5%
Average daily IM user hours (for the last 15 days of the quarter)	2,279.3	2,226.0	2.4%	25.5%
Active Qzone user accounts	536.9	530.7	1.2%	11.6%
Peak simultaneous online QQ Game user accounts (for the quarter)	8.0	7.5	6.7%	25.0%
Fee-based IVAS registered subscriptions	77.5	76.5	1.3%	15.2%
Fee-based MVAS registered subscriptions	31.2	29.8	4.7%	23.3%

- *QQ*. Our IM platform expanded in the third quarter of 2011, as evidenced by the increase in active user accounts, peak simultaneous online users accounts and average daily user hours. The quarter-on-quarter growth was primarily driven by the positive seasonal impact of the summer school holidays and increasing usage of our IM services on mobile devices. The year-on-year growth of the key operating metrics of our IM platform continued to slow down as a result of the increased scale and reduced growth of the overall Internet user base in China.

- *Qzone*. The growth rate of active user accounts at Qzone was broadly in line with that of our IM platform as QQ Farm and QQ Ranch matured.
- *QQ Game*. Peak simultaneous online user accounts at QQ Game increased compared to the previous quarter, helped by our operational initiatives and positive seasonality.
- *IVAS subscriptions*. Registered subscriptions to our IVAS increased sequentially during the quarter, primarily stimulated by the growth in QQ Membership, QQ Game and QQ Music.
- *MVAS subscriptions*. MVAS registered subscriptions rose because of increased usage of our bundled SMS packages, mobile books service and mobile games service.

FINANCIAL PERFORMANCE HIGHLIGHTS

First Nine Months of 2011

The following table sets forth the comparative figures for the first nine months of 2011 and the first nine months of 2010:

	Unaudited	
	Nine months ended	
	30 September	30 September
	2011	2010
	RMB'000	RMB'000
Revenues	20,573,621	14,121,868
Cost of revenues	<u>(7,186,773)</u>	<u>(4,487,838)</u>
Gross profit	13,386,848	9,634,030
Interest income	331,367	176,455
Other gains, net	351,078	14,619
Selling and marketing expenses	<u>(1,177,196)</u>	<u>(643,574)</u>
General and administrative expenses	<u>(3,730,116)</u>	<u>(1,995,819)</u>
Operating profit	9,161,981	7,185,711
Finance income/(costs), net	40,999	(1,103)
Share of profit of associates	39,466	35,232
Share of losses of jointly controlled entities	<u>(124,912)</u>	<u>—</u>
Profit before income tax	9,117,534	7,219,840
Income tax expense	<u>(1,443,906)</u>	<u>(1,317,913)</u>
Profit for the period	<u>7,673,628</u>	<u>5,901,927</u>
Attributable to:		
Equity holders of the Company	7,666,057	5,852,807
Non-controlling interests	<u>7,571</u>	<u>49,120</u>
	<u>7,673,628</u>	<u>5,901,927</u>
Non-GAAP profit attributable to equity holders of the Company	<u>8,040,620</u>	<u>6,225,511</u>

Revenues. Revenues increased by 45.7% to RMB20,573.6 million for the first nine months of 2011 from RMB14,121.9 million for the first nine months of 2010.

	Unaudited			
	Nine months ended			
	30 September 2011		30 September 2010	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	16,640,995	80.9%	11,098,361	78.6%
MVAS	2,416,531	11.7%	1,987,415	14.1%
Online advertising	1,393,778	6.8%	984,396	7.0%
Others	<u>122,317</u>	<u>0.6%</u>	<u>51,696</u>	<u>0.3%</u>
Total revenues	<u>20,573,621</u>	<u>100.0%</u>	<u>14,121,868</u>	<u>100.0%</u>

Cost of revenues. Cost of revenues increased by 60.1% to RMB7,186.8 million for the first nine months of 2011 from RMB4,487.8 million for the first nine months of 2010.

	Unaudited			
	Nine months ended			
	30 September 2011		30 September 2010	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	5,569,479	33.5%	3,377,711	30.4%
MVAS	969,679	40.1%	731,402	36.8%
Online advertising	488,299	35.0%	303,215	30.8%
Others	<u>159,316</u>	<u>130.2%</u>	<u>75,510</u>	146.1%
Total cost of revenues	<u>7,186,773</u>		<u>4,487,838</u>	

Third Quarter of 2011

Unaudited consolidated revenues for the third quarter of 2011 were RMB7,496.2 million, an increase of 43.4% over the same period in 2010 and an increase of 11.2% from the second quarter of 2011.

Revenues from our IVAS for the third quarter of 2011 were RMB6,003.1 million, an increase of 45.4% over the same period in 2010 and an increase of 11.4% from the second quarter of 2011.

Revenues from our MVAS for the third quarter of 2011 were RMB844.9 million, an increase of 21.6% over the same period in 2010 and an increase of 6.4% from the second quarter of 2011.

Revenues from our online advertising business for the third quarter of 2011 were RMB600.6 million, an increase of 57.0% over the same period in 2010 and an increase of 17.2% from the second quarter of 2011.

Cost of revenues for the third quarter of 2011 was RMB2,661.4 million, an increase of 58.7% over the same period in 2010 and an increase of 14.1% from the second quarter of 2011.

Selling and marketing expenses for the third quarter of 2011 were RMB507.3 million, an increase of 122.7% over the same period in 2010 and an increase of 37.3% from the second quarter of 2011.

General and administrative expenses for the third quarter of 2011 were RMB1,469.3 million, an increase of 97.5% over the same period in 2010 and an increase of 7.8% from the second quarter of 2011.

Operating profit for the third quarter of 2011 was RMB2,991.6 million, representing an increase of 12.2% over the same period in 2010 and an increase of 7.5% from the second quarter of 2011. As a percentage of revenues, operating profit represented 39.9% for the third quarter of 2011, compared to 51.0% for the same period in 2010 and 41.3% for the second quarter of 2011.

Non-GAAP operating profit for the third quarter of 2011 was RMB3,378.2 million, representing an increase of 20.4% over the same period in 2010 and an increase of 5.6% from the second quarter of 2011. As a percentage of revenues, non-GAAP operating profit represented 45.1% for the third quarter of 2011, compared to 53.7% for the same period in 2010 and 47.5% for the second quarter of 2011. For details on the Group's non-GAAP financial measures, please see "Non-GAAP Financial Measures" section below.

Profit attributable to equity holders of the Company for the third quarter of 2011 was RMB2,446.4 million, an increase of 13.6% over the same period in 2010 and an increase of 4.1% from the second quarter of 2011.

Non-GAAP profit attributable to equity holders of the Company for the third quarter of 2011 was RMB2,769.1 million, an increase of 20.8% over the same period in 2010 and an increase of 3.1% from the second quarter of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2011 Compared to Second Quarter of 2011

The following table sets forth the comparative figures for the third quarter of 2011 and the second quarter of 2011:

	Unaudited	
	Three months ended	
	30 September	30 June
	2011	2011
	RMB'000	RMB'000
Revenues	7,496,157	6,739,044
Cost of revenues	(2,661,407)	<u>(2,331,637)</u>
Gross profit	4,834,750	4,407,407
Interest income	124,159	106,546
Other gains, net	9,200	2,809
Selling and marketing expenses	(507,252)	(369,491)
General and administrative expenses	(1,469,278)	<u>(1,363,372)</u>
Operating profit	2,991,579	2,783,899
Finance income, net	43,097	1,771
Share of (losses)/profit of associates	(21,842)	23,454
Share of losses of jointly controlled entities	(59,926)	<u>(60,689)</u>
Profit before income tax	2,952,908	2,748,435
Income tax expense	(506,760)	<u>(405,163)</u>
Profit for the period	<u>2,446,148</u>	<u>2,343,272</u>
Attributable to:		
Equity holders of the Company	2,446,437	2,349,246
Non-controlling interests	(289)	<u>(5,974)</u>
	<u>2,446,148</u>	<u>2,343,272</u>
Non-GAAP profit attributable to equity holders of the Company	<u>2,769,143</u>	<u>2,686,757</u>

Revenues. Revenues increased by 11.2% to RMB7,496.2 million for the third quarter of 2011 from RMB6,739.0 million for the second quarter of 2011. The following table sets forth our revenues by line of business for the third quarter of 2011 and the second quarter of 2011:

	Unaudited			
	Three months ended			
	30 September 2011		30 June 2011	
	Amount	% of total revenues	Amount	% of total revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	6,003,135	80.1%	5,386,578	79.9%
MVAS	844,900	11.3%	793,839	11.8%
Online advertising	600,572	8.0%	512,312	7.6%
Others	<u>47,550</u>	<u>0.6%</u>	<u>46,315</u>	<u>0.7%</u>
Total revenues	<u>7,496,157</u>	<u>100.0%</u>	<u>6,739,044</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 11.4% to RMB6,003.1 million for the third quarter of 2011 from RMB5,386.6 million for the second quarter of 2011. Online game revenues increased by 14.0% to RMB4,149.9 million. This mainly reflected the growth in Cross Fire, QQ Dancer, DNF, QQ Game and QQ Speed, as well as contributions from League of Legends and positive seasonality. Revenues from our community VAS increased by 6.2% to RMB1,853.2 million, reflecting the growth in QQ Membership and Qzone. Revenues from QQ Membership benefited from subscriber growth mainly attributable to joint promotional activities related to our online games. Qzone revenues increased, primarily driven by the growth in the number of third-party applications offered on the platform.
- Revenues from our MVAS increased by 6.4% to RMB844.9 million for the third quarter of 2011 from RMB793.8 million for the second quarter of 2011. This was primarily driven by the growth in revenues from our bundled SMS packages, mobile games and mobile books. The revenue growth of our MVAS continued to be affected by the service cancellation policy introduced by China Mobile in early 2011 which resulted in lower realisation rates.
- Revenues from our online advertising business increased by 17.2% to RMB600.6 million for the third quarter of 2011 from RMB512.3 million for the second quarter of 2011. This was mainly due to positive seasonality and higher contributions from search and video advertising.

Cost of revenues. Cost of revenues increased by 14.1% to RMB2,661.4 million for the third quarter of 2011 from RMB2,331.6 million for the second quarter of 2011. This mainly reflected an increase in sharing costs, bandwidth and server custody fees, as well as equipment depreciation. As a percentage of revenues, cost of revenues increased to 35.5% for the third quarter of 2011 from 34.6% for the second quarter of 2011. The following table sets forth our cost of revenues by line of business for the third quarter of 2011 and the second quarter of 2011:

	Unaudited			
	Three months ended			
	30 September 2011		31 June 2011	
	Amount	% of segment revenues	Amount	% of segment revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	2,039,091	34.0%	1,788,240	33.2%
MVAS	349,725	41.4%	322,454	40.6%
Online advertising	201,571	33.6%	168,624	32.9%
Others	<u>71,020</u>	<u>149.4%</u>	<u>52,319</u>	113.0%
Total cost of revenues	<u>2,661,407</u>		<u>2,331,637</u>	

- Cost of revenues for our IVAS increased by 14.0% to RMB2,039.1 million for the third quarter of 2011 from RMB1,788.2 million for the second quarter of 2011. This primarily reflected growth in sharing costs as a result of increased revenues from our licensed games. Other costs also increased due to our expanded business.
- Cost of revenues for our MVAS increased by 8.5% to RMB349.7 million for the third quarter of 2011 from RMB322.5 million for the second quarter of 2011. This was mainly driven by an increase in telecommunications operators' revenue share, staff costs and sharing costs as our business scale grew.
- Cost of revenues for our online advertising business increased by 19.5% to RMB201.6 million for the third quarter of 2011 from RMB168.6 million for the second quarter of 2011. This primarily reflected an increase in commissions paid to advertising agencies as a result of revenue growth. Bandwidth and server custody fees as well as sharing costs for our search business also increased.

Other gains, net. Other gains, net of RMB9.2 million were recorded for the third quarter of 2011, compared to RMB2.8 million for the second quarter of 2011. This primarily reflected an increase in government subsidies, partly offset by an increase in loss on foreign exchange forward contracts, which we entered into for the purpose of managing our foreign currency exposure related to our USD-denominated borrowings.

Selling and marketing expenses. Selling and marketing expenses increased by 37.3% to RMB507.3 million for the third quarter of 2011 from RMB369.5 million for the second quarter of 2011. This mainly reflected an increase in promotional and advertising expenses driven by the open beta launch of League of Legends and the promotion of other online games and mobile products. As a percentage of revenues, selling and marketing expenses increased to 6.8% for the third quarter of 2011 from 5.5% for the second quarter of 2011.

General and administrative expenses. General and administrative expenses increased by 7.8% to RMB1,469.3 million for the third quarter of 2011 from RMB1,363.4 million for the second quarter of 2011. This primarily reflected an increase in research and development expenses due to the expansion of our research and development team for supporting our growth strategy. Staff costs and administrative expenses also increased along with our growing business scale. The increase in general and administrative expenses was partly offset by the absence of one-time transaction costs related to the Riot Games Acquisition which was booked in the second quarter of 2011. As a percentage of revenues, general and administrative expenses decreased to 19.6% for the third quarter of 2011 from 20.2% for the second quarter of 2011.

Income tax expense. Income tax expense increased by 25.1% to RMB506.8 million for the third quarter of 2011 from RMB405.2 million for the second quarter of 2011. This primarily reflected the increase in profit before tax and deferred tax liabilities recognised in relation to withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies. The non-recurrence of income tax expense reversal recorded in the previous quarter as a result of the finalisation of our enterprise income tax assessment for 2010 also contributed to the increase in income tax expense for the third quarter of 2011.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 4.1% to RMB2,446.4 million for the third quarter of 2011 from RMB2,349.2 million for the second quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 3.1% to RMB2,769.1 million for the third quarter of 2011 from RMB2,686.8 million for the second quarter of 2011.

Third Quarter of 2011 Compared to Third Quarter of 2010

The following table sets forth the comparative figures for the third quarter of 2011 and the third quarter of 2010:

	Unaudited	
	Three months ended	
	30 September	30 September
	2011	2010
	RMB'000	RMB'000
Revenues	7,496,157	5,226,628
Cost of revenues	<u>(2,661,407)</u>	<u>(1,676,544)</u>
Gross profit	4,834,750	3,550,084
Interest income	124,159	65,259
Other gains, net	9,200	22,479
Selling and marketing expenses	(507,252)	(227,817)
General and administrative expenses	<u>(1,469,278)</u>	<u>(744,092)</u>
Operating profit	2,991,579	2,665,913
Finance income, net	43,097	3,431
Share of (losses)/profit of associates	(21,842)	10,985
Share of losses of jointly controlled entities	<u>(59,926)</u>	<u>—</u>
Profit before income tax	2,952,908	2,680,329
Income tax expense	<u>(506,760)</u>	<u>(512,013)</u>
Profit for the period	<u><u>2,446,148</u></u>	<u><u>2,168,316</u></u>
Attributable to:		
Equity holders of the Company	2,446,437	2,153,111
Non-controlling interests	<u>(289)</u>	<u>15,205</u>
	<u><u>2,446,148</u></u>	<u><u>2,168,316</u></u>
Non-GAAP profit attributable to equity holders of the Company	<u><u>2,769,143</u></u>	<u><u>2,291,817</u></u>

Revenues. Revenues increased by 43.4% to RMB7,496.2 million for the third quarter of 2011 from RMB5,226.6 million for the third quarter of 2010. The following table sets forth our revenues by line of business for the third quarter of 2011 and the third quarter of 2010:

	Unaudited			
	Three months ended			
	30 September 2011		30 September 2010	
	Amount	% of total revenues	Amount	% of total Revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	6,003,135	80.1%	4,129,008	79.0%
MVAS	844,900	11.3%	695,057	13.3%
Online advertising	600,572	8.0%	382,542	7.3%
Others	<u>47,550</u>	<u>0.6%</u>	<u>20,021</u>	<u>0.4%</u>
Total revenues	<u>7,496,157</u>	<u>100.0%</u>	<u>5,226,628</u>	<u>100.0%</u>

- Revenues from our IVAS increased by 45.4% to RMB6,003.1 million for the third quarter of 2011 from RMB4,129.0 million for the third quarter of 2010. Online game revenues increased by 62.3% to RMB4,149.9 million. This was primarily driven by growth in existing products such as Cross Fire, QQ Dancer, DNF, QQ Game, QQ Speed and Qi Xiong Zheng Ba, and contributions from new products such as League of Legends. Revenues from our community VAS increased by 17.9% to RMB1,853.2 million, mainly attributable to the growth in Qzone and QQ Membership. Qzone benefited from increased item-based sales driven by the growth in the number of third-party applications offered on the platform. Revenues from QQ Membership grew on the back of an expanded subscriber base, riding on enhanced privileges and value-added functions. QQ Music also contributed to the growth in community VAS revenues.
- Revenues from our MVAS increased by 21.6% to RMB844.9 million for the third quarter of 2011 from RMB695.1 million for the third quarter of 2010. The increase was mainly attributable to growth in revenues from mobile games, bundled SMS packages and mobile books. This was partly offset by the negative impact of the service cancellation policy introduced by China Mobile in early 2011 which resulted in lower realisation rates.

- Revenues from our online advertising business increased by 57.0% to RMB600.6 million for the third quarter of 2011 from RMB382.5 million for the third quarter of 2010. The growth was broadly based across display advertising, video advertising, and search advertising.

Cost of revenues. Cost of revenues increased by 58.7% to RMB2,661.4 million for the third quarter of 2011 from RMB1,676.5 million for the third quarter of 2010. This mainly reflected an increase in sharing costs, staff costs, bandwidth and server custody fees as well as equipment depreciation. As a percentage of revenues, cost of revenues increased to 35.5% for the third quarter of 2011 from 32.1% for the third quarter of 2010. The following table sets forth our cost of revenues by line of business for the third quarter of 2011 and the third quarter of 2010:

	Unaudited			
	Three months ended			
	30 September 2011		30 September 2010	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
IVAS	2,039,091	34.0%	1,264,751	30.6%
MVAS	349,725	41.4%	267,962	38.6%
Online advertising	201,571	33.6%	114,844	30.0%
Others	<u>71,020</u>	149.4%	<u>28,987</u>	144.8%
Total cost of revenues	<u>2,661,407</u>		<u>1,676,544</u>	

- Cost of revenues for our IVAS increased by 61.2% to RMB2,039.1 million for the third quarter of 2011 from RMB1,264.8 million for the third quarter of 2010. This primarily reflected increased sharing costs due to the growth in revenues from our licensed games. Bandwidth and server custody fees as well as equipment depreciation also increased as our business volume grew.
- Cost of revenues for our MVAS increased by 30.5% to RMB349.7 million for the third quarter of 2011 from RMB268.0 million for the third quarter of 2010. This was mainly driven by increased staff costs for the long-term growth of the business. Other costs also increased due to our business expansion.

- Cost of revenues for our online advertising business increased by 75.5% to RMB201.6 million for the third quarter of 2011 from RMB114.8 million for the third quarter of 2010. This mainly reflected an increase in sales commissions paid to advertising agencies as a result of revenue growth and increased sharing costs for our search business arising from the growth in traffic generated from our search distribution partners. Staff costs and equipment depreciation also increased.

Other gains, net. We recorded other gains, net of RMB9.2 million for the third quarter of 2011, compared to RMB22.5 million for the third quarter of 2010. During the quarter, loss on foreign exchange forward contracts, which we entered into for the purpose of managing our foreign currency exposure related to our USD-denominated borrowings, increased. In addition, government subsidies decreased and no donation was made to the Tencent Charity Fund.

Selling and marketing expenses. Selling and marketing expenses increased by 122.7% to RMB507.3 million for the third quarter of 2011 from RMB227.8 million for the third quarter of 2010. This primarily reflected an increase in promotional and advertising spending on microblog, online games and mobile products. As a percentage of revenues, selling and marketing expenses increased to 6.8% for the third quarter of 2011 from 4.4% for the third quarter of 2010.

General and administrative expenses. General and administrative expenses increased by 97.5% to RMB1,469.3 million for the third quarter of 2011 from RMB744.1 million for the third quarter of 2010. This primarily reflected the impact of the Riot Games Acquisition, including amortisation of intangible assets acquired. This also reflected an increase in research and development expenses, staff costs and administrative expenses as a result of our business growth. As a percentage of revenues, general and administrative expenses increased to 19.6% for the third quarter of 2011 from 14.2% for the third quarter of 2010. Excluding the impact of Riot Games, general and administrative expenses increased by 56.3% compared to the same period last year.

Income tax expense. We recorded income tax expense of RMB506.8 million for the third quarter of 2011 compared to RMB512.0 million for the third quarter of 2010. The change was primarily driven by a reversal of deferred tax liabilities arising from the Riot Games Acquisition and a decrease in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies. The aforementioned factors were partly offset by higher profit before tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 13.6% to RMB2,446.4 million for the third quarter of 2011 from RMB2,153.1 million for the third quarter of 2010. Non-GAAP profit attributable to equity holders of the Company increased by 20.8% to RMB2,769.1 million for the third quarter of 2011 from RMB2,291.8 million for the third quarter of 2010.

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of acquisitions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first nine months of 2011 and 2010, the third quarter of 2011 and 2010, and the second quarter of 2011 to the nearest measures prepared in accordance with IFRS:

Unaudited nine months ended 30 September 2011						
As reported	Adjustments					Non-GAAP
	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group		
<i>(RMB in thousands, except percentages)</i>						
Operating profit	9,161,981	512,573	(459,037)	422,657	57,831	9,696,005
Profit for the period	7,673,628	512,573	(459,037)	290,880	57,831	8,075,875
Profit attributable to equity holders of the Company	7,666,057	507,307	(459,037)	272,843	53,450	8,040,620
Operating margin	44.5%					47.1%
Net margin	37.3%					39.3%
Unaudited nine months ended 30 September 2010						
As reported	Adjustments					Non-GAAP
	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group		
<i>(RMB in thousands, except percentages)</i>						
Operating profit	7,185,711	351,613	—	28,473	—	7,565,797
Profit for the period	5,901,927	351,613	—	23,289	—	6,276,829
Profit attributable to equity holders of the Company	5,852,807	351,613	—	21,091	—	6,225,511
Operating margin	50.9%					53.6%
Net margin	41.8%					44.4%

Unaudited three months ended 30 September 2011

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	
	<i>(RMB in thousands, except percentages)</i>					
Operating profit	2,991,579	178,121	–	184,212	24,294	3,378,206
Profit for the period	2,446,148	178,121	–	131,211	24,294	2,779,774
Profit attributable to equity holders of the Company	2,446,437	176,934	–	123,375	22,397	2,769,143
Operating margin	39.9%					45.1%
Net margin	32.6%					37.1%

Unaudited three months ended 30 June 2011

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	
	<i>(RMB in thousands, except percentages)</i>					
Operating profit	2,783,899	190,329	–	199,215	24,446	3,197,889
Profit for the period	2,343,272	190,329	–	136,440	24,446	2,694,487
Profit attributable to equity holders of the Company	2,349,246	187,252	–	127,641	22,618	2,686,757
Operating margin	41.3%					47.5%
Net margin	34.8%					40.0%

Unaudited three months ended 30 September 2010

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Gain on deemed disposal of previously held interest in an associate	Amortisation of intangible assets resulting from acquisitions, net of related deferred tax	Put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group	
	<i>(RMB in thousands, except percentages)</i>					
Operating profit	2,665,913	131,042	—	9,461	—	2,806,416
Profit for the period	2,168,316	131,042	—	7,743	—	2,307,101
Profit attributable to equity holders of the Company	2,153,111	131,042	—	7,664	—	2,291,817
Operating margin	51.0%					53.7%
Net margin	41.5%					44.1%

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2011 and 30 June 2011, we had the following major financial resources in the form of cash and investments:

	Unaudited	
	30 September	30 June
	2011	2011
	RMB'000	RMB'000
Cash and cash equivalents	6,978,825	7,963,090
Term deposits with initial term of over three months	<u>13,011,238</u>	<u>13,189,618</u>
Total financial resources	19,990,063	21,152,708
Unsecured short-term borrowings	<u>(4,448,430)</u>	<u>(5,511,720)</u>
Net financial resources	<u>15,541,633</u>	<u>15,640,988</u>

Note:

The above table excludes short-term bank borrowing arrangements with an aggregate principal amount of USD460.0 million as at 30 September 2011 (30 June 2011: USD410.0 million) and restricted cash deposits of RMB3,071.6 million as at 30 September 2011 (30 June 2011: RMB2,747.3 million) pledged as part of these arrangements, as such deposits are scheduled to offset the borrowed amount at the maturity of the loans.

As at 30 September 2011, RMB1,739.1 million of our financial resources (30 June 2011: RMB2,983.7 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

BUSINESS REVIEW AND OUTLOOK

Our IVAS revenues increased substantially in the third quarter of 2011, primarily driven by user growth across our major self-developed and licensed games. Our community VAS revenue growth has slowed because of the decelerating growth of China's Internet user base, plus the maturity of the QQ Farm and QQ Ranch social games. However, some of our newer community VAS products, such as our free and paid QQ Music service, are gaining traction. As for our MVAS business, revenues registered solid growth, and we offset a challenging regulatory environment by capitalising on user migration to the mobile Internet, as evidenced by the increasing popularity of our mobile social applications and mobile games. Our advertising business achieved significant revenue growth, assisted by positive seasonality and increased contributions from search and online video advertising. Looking ahead, the fourth quarter of each year historically presents weaker seasonality for our game and online advertising businesses, while our MVAS business continues to face the challenges of a dynamic regulatory environment.

Our margins declined in the third quarter as we invested further in our strategic initiatives, including our open platform, Tencent Microblog, e-commerce, search, online videos and online security services, to help position us for long-term growth. During the period, we provided substantial sales and marketing support to new products and services such as League of Legends and our mobile browser, and are generally pleased with the consumer responses.

The European sovereign debt crisis adds uncertainty to China's economic outlook. We are mindful of macroeconomic risks, and of the dynamic competitive environment in which we operate. However we also see emerging opportunities as the Internet becomes more ubiquitous in everyday life, and will continue to invest selectively but forcefully against our strategic initiatives, while appropriately managing our risks and expenses.

IM Platform

During the third quarter of 2011, increasing usage of our IM services on mobile devices and the school summer holidays expanded our IM platform user base. Active user accounts at the end of the quarter increased by 11.8% on a year-on-year basis to 711.7 million. PCU registered 22.5% growth compared to the same period last year and reached 145.4 million. Looking forward, we expect that our IM user expansion will moderate with the decelerating growth of China's Internet user base. We will instead be focused on enhancing user engagement, for example by offering more third-party applications on our open platform.

QQ.com

QQ.com experienced solid year-on-year growth in traffic and users during the quarter. We are deepening QQ.com's integration with Tencent Microblog to strengthen the media influence of both services. We are also enhancing the breadth and depth of our content to better address the needs of different user groups.

IVAS

Our community VAS products generally experienced user and revenue growth during the quarter. Qzone's active user accounts increased by 11.6% year-on-year to 536.9 million at the end of the third quarter. Because of the maturity of QQ Farm and QQ Ranch, active user growth at Qzone has reduced to rates broadly in line with those of our IM platform. Item sales grew as we offered more third-party applications on Qzone. Pengyou gained market share and increased its penetration in the white collar segment, as its active user accounts increased by 175.6% year-on-year to 149.4 million at the end of the third quarter. To further extend our open platform strategy, we have made a strategic investment in another social network, Kaixin001.

Growth momentum at Tencent Microblog continued, as registered user accounts increased sequentially by over 30%, to over 300 million at the end of the third quarter, and active usage climbed significantly. QQ Membership's subscription base expanded, assisted by enriched functionalities and cross-promotions with our online games. We are seeking to stimulate engagement at QQ Show via special items and promotions, and we are experiencing robust user growth at QQ Music.

Our online game business achieved significant increases in users and revenue across our major self-developed and licensed titles, assisted by school summer holiday seasonality. Among our advanced casual games, Cross Fire, QQ Dancer and QQ Speed experienced significant growth in users, and new title League of Legends entered its open beta testing period in September 2011, to a positive consumer response. Among our MMOGs, DNF substantially increased active users. Among our other game genres, QQ Game registered a 25.0% year-on-year increase in PCU to 8.0 million, and Roco Kingdom achieved a record-high PCU of 558,000.

MVAS

Our MVAS revenue increased during the quarter, primarily driven by our bundled SMS packages, mobile games and mobile books. While the “cancellation before verification” policy introduced by China Mobile in early 2011 has dampened the growth of our MVAS business, mitigating measures that we have implemented are cushioning the impact of fraudulent users and improving our collection rate. We are actively positioning ourselves for the proliferation of the mobile Internet by extending our PC-based services to the mobile platform and developing new applications. For example, our Wireless QQ and Weixin services were consistently the most-downloaded social applications in major application stores in China during the quarter. We are investing significantly in marketing our mobile applications to enhance market awareness and accelerate user growth.

Online advertising

Our online advertising business generated significant revenue growth during the quarter, driven by display, video and search advertising. Our video advertising revenue almost doubled that for the previous quarter and our video service was ranked amongst the top five in China in terms of monthly unique visitors by third party data sources. Looking ahead, we are investing significantly in our video service’s content offering. To increase our penetration amongst advertising clients in the fast moving consumer goods, finance and automobile sectors, we will enrich our portal content and enhance our marketing efforts. We are also refining our search engine algorithms and performance-based advertising technologies.

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 September 2011, the Group had 16,020 employees (30 September 2010: 10,260), most of whom are 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 three months ended 30 September 2011 was RMB1,361.0 million (for the three months ended 30 September 2010: RMB842.7 million).

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

During the three months ended 30 September 2011, the Company repurchased 5,297,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD907.5 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in the three months ended 30 September 2011	No. of shares purchased	Purchase consideration per share		Aggregate consideration paid HKD
		Highest price paid HKD	Lowest price paid HKD	
August	3,417,900	185.00	165.80	600,511,754
September	<u>1,879,100</u>	170.00	152.00	<u>306,999,758</u>
Total	<u>5,297,000</u>			<u>907,511,512</u>

Save as disclosed above and in the "Interim Financial Information" section, 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 2011.

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and nine months ended 30 September 2011.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2010 annual report and the 2011 interim report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three months ended 30 September 2011, complied with the code provisions of the Code on Corporate Governance Practices 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

I would like to extend the Board's sincere gratitude to our employees for their hard work and commitment, which has been, and will continue to be, essential for the Group's success and competitive edge in a market full of challenges and uncertainties. We also thank our shareholders and other stakeholders for their continuous support and confidence in our Group.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 9 November 2011

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.

Definitions

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

Term	Definition
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“China Mobile”	China Mobile Communications Corporation
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DNF”	Dungeon and Fighter
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standard
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“LIBOR”	the London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MMOG(s)”	massively multiplayer online game(s)

“MVAS”	mobile and telecommunications value-added services
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“Riot Games”	Riot Games, Inc.
“Riot Games Acquisition”	the acquisition of a majority interest in Riot Games by the Group from the existing shareholders, including the founders of Riot Games
“RMB”	the lawful currency of the PRC
“SMS”	short message service
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Scheme of the Company
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services