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 MONTHS ENDED 31 MARCH 2009

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 months ended 31 March 2009. 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 (the "Audit Committee"), comprising a majority of the independent non-executive directors of the Company.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2009

	Note	**Unaudited 31 March 2009** *RMB'000*	Audited 31 December 2008 *RMB'000*
ASSETS			
Non-current assets			
Fixed assets		**1,347,998**	1,165,048
Construction in progress		**825,702**	875,897
Investment properties		**32,212**	64,981
Leasehold land and land use rights		**35,859**	36,046
Intangible assets		**339,170**	370,314
Investment in associates		**320,633**	302,712
Deferred income tax assets		**318,016**	334,164
Available-for-sale financial assets		**87,037**	86,180
Prepayments, deposits and other receivables		**124,363**	124,354
		3,430,990	3,359,696
Current assets			
Inventories		**2,294**	5,483
Accounts receivable	3	**1,103,997**	983,459
Prepayments, deposits and other receivables		**374,498**	378,340
Financial assets held for trading		**329,866**	329,804
Held-to-maturity investments		**–**	68,346
Term deposits with initial term of over three months		**2,464,401**	1,662,501
Cash and cash equivalents		**3,803,523**	3,067,928
		8,078,579	6,495,861
Total assets		**11,509,569**	9,855,557

	Note	**Unaudited 31 March 2009 *RMB'000***	Audited 31 December 2008 *RMB'000*
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		**195**	195
Share premium		**1,106,830**	1,155,209
Shares held for share award scheme		**(27,692)**	(21,809)
Share-based compensation reserve		**431,006**	381,439
Other reserves		**(433,038)**	(433,038)
Retained earnings		**6,974,370**	5,938,930
		8,051,671	7,020,926
Minority interests in equity		**116,576**	98,406
Total equity		**8,168,247**	7,119,332
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**73,757**	78,368
Long-term payables		**566,269**	566,260
		640,026	644,628
Current liabilities			
Accounts payable	5	**438,820**	244,647
Other payables and accruals		**886,882**	1,013,542
Current income tax liabilities		**126,902**	47,307
Other tax liabilities		**132,081**	103,933
Deferred revenue		**1,116,611**	682,168
		2,701,296	2,091,597
Total liabilities		**3,341,322**	2,736,225
Total equity and liabilities		**11,509,569**	9,855,557
Net current assets		**5,377,283**	4,404,264
Total assets less current liabilities		**8,808,273**	7,763,960

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2009

		Unaudited Three months ended 31 March	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenues			
Internet value-added services		**1,904,563**	998,733
Mobile and telecommunications value-added services		**439,545**	288,291
Online advertising		**146,563**	144,580
Others		**13,694**	1,307
		2,504,365	1,432,911
Cost of revenues	7	**(785,914)**	(388,465)
Gross profit		**1,718,451**	1,044,446
Other (losses)/gains, net	6	**(771)**	47,448
Selling and marketing expenses	7	**(98,105)**	(85,934)
General and administrative expenses	7	**(455,018)**	(268,642)
Operating profit	*	**1,164,557**	737,318
Finance income/(costs)	**	**248**	(94,466)
Share of profit of associates		**5,372**	–
Profit before income tax		**1,170,177**	642,852
Income tax expense	8	**(116,567)**	(100,840)
Profit/total comprehensive income for the period		**1,053,610**	542,012

		Unaudited Three months ended 31 March	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Profit/total comprehensive income attributable to:			
Equity holders of the Company		**1,035,440**	534,378
Minority interests		**18,170**	7,634
		1,053,610	542,012
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)			
- basic	9	**0.577**	0.298
- diluted	9	**0.566**	0.290

* After deduction of share-based compensation charge amounting to RMB49,334,000 for the three months ended 31 March 2009 (for the three months ended 31 March 2008: RMB35,432,000).

** Included foreign exchange gains of RMB248,000 for the three months ended 31 March 2009 (for the three months ended 31 March 2008: foreign exchange losses of RMB94,466,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2009

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2009	**195**	**1,155,209**	**(21,809)**	**381,439**	**(433,038)**	**5,938,930**	**7,020,926**	**98,406**	**7,119,332**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**1,035,440**	**1,035,440**	**18,170**	**1,053,610**
Employee share option schemes:									
- value of employee services	**–**	**–**	**–**	**41,077**	**–**	**–**	**41,077**	**–**	**41,077**
- proceeds from shares issued	**–**	**26,191**	**–**	**–**	**–**	**–**	**26,191**	**–**	**26,191**
Employee share award scheme:									
- value of employee services	**–**	**–**	**–**	**8,490**	**–**	**–**	**8,490**	**–**	**8,490**
- shares purchased for share award scheme	**–**	**–**	**(5,883)**	**–**	**–**	**–**	**(5,883)**	**–**	**(5,883)**
Repurchase and cancellation of shares	**–**	**(74,570)**	**–**	**–**	**–**	**–**	**(74,570)**	**–**	**(74,570)**
Balance at 31 March 2009	**195**	**1,106,830**	**(27,692)**	**431,006**	**(433,038)**	**6,974,370**	**8,051,671**	**116,576**	**8,168,247**
Balance at 1 January 2008	194	1,455,854	–	220,230	93,712	3,413,823	5,183,813	91,630	5,275,443
Total comprehensive income for the period	–	–	–	–	–	534,378	534,378	7,634	542,012
Employee share option schemes:									
- value of employee services	–	–	–	35,556	–	–	35,556	–	35,556
- proceeds from shares issued	1	26,074	–	–	–	–	26,075	–	26,075
Repurchase and cancellation of shares	–	(53,417)	–	–	–	–	(53,417)	–	(53,417)
Others	–	–	–	–	–	–	–	172	172
Balance at 31 March 2008	195	1,428,511	–	255,786	93,712	3,948,201	5,726,405	99,436	5,825,841

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2009

	Unaudited Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**1,634,463**	204,218
Net cash flows used in investing activities	**(844,823)**	(710,705)
Net cash flows used in financing activities	**(54,262)**	(27,342)
Net increase/(decrease) in cash and cash equivalents	**735,378**	(533,829)
Cash and cash equivalents at beginning of period	**3,067,928**	2,948,757
Exchange gains/(losses) on cash and cash equivalents	**217**	(54,671)
Cash and cash equivalents at end of period	**3,803,523**	2,360,257
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**1,887,529**	1,628,779
Short-term highly liquid investments with initial term of three months or less	**1,915,994**	731,478
	3,803,523	2,360,257

Notes:

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

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

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

The consolidated statement of financial position as at 31 March 2009 and the related consolidated statements of comprehensive income, changes in equity and condensed cash flows for the three months then ended (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 2008 (the "2008 Financial Statements") as set out in the 2008 annual report of the Company dated 18 March 2009.

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 2008 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 and financial assets held for trading.

Assessment and adoption of new standards, amendments and interpretations

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for the financial year beginning on 1 January 2009.

a) IAS 1 (Revised), 'Presentation of Financial Statements'. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present statements of performance position at the end of the current period and comparative period.

   The Group has applied this revised standard from 1 January 2009. The Interim Financial Information has been prepared under the revised presentation requirements.

b) IFRS 2 (Amendment), 'Share-based Payment Vesting Conditions and Cancellations'. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services; that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remaining of the vesting period is recognised immediately.

   The Group has applied this amendment from 1 January 2009 and management considers that this amendment does not have a significant impact on the Interim Financial Information.

c) Amendment to IFRS 7, 'Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments'. It requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

   This amendment is not relevant to the preparation of the Interim Financial Information. The Group is currently assessing the impact of the amendment on disclosures in its 2009 year-end consolidated financial statements.

d) IFRS 8, 'Operating Segments'. IFRS 8 replaces IAS 14. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purpose. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segments and to assess their performance.

   The Group has applied this standard from 1 January 2009. As the business segments reported by the Group in accordance with the requirements of IAS 14 are the same as the operating segments provided to chief operating decision-makers, there are no changes to the operating segments and the results of them on the adoption of IFRS 8.

e) IFRIC 13, 'Customer Loyalty Programmes'. It clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

The current accounting treatment adopted by the Group for customer loyalty programs complies with the requirements of IFRIC 13.

The following new amendments and interpretations to existing standards have been published and are mandatory for the financial year beginning on 1 January 2009, but are not currently relevant to the Group.

IAS 23 (Amendment)	Borrowing Costs
IAS 32 and IAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
IFRIC 15	Agreements for Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

2 **Segment information**

The Group has three reportable segments for the three months ended 31 March 2009 and 2008:

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

Other operations of the Group mainly comprised provision of online payments and trademark licensing.

There were no inter-segment sales during the three months ended 31 March 2009 and 2008.

The reportable segment revenues and segment gross profit/(loss) for the three months ended 31 March 2009 and 2008, together with the reconciliation of the segment gross profit/(loss) to profit before income tax, are presented as follows:

	Unaudited Three months ended 31 March 2009				
	Internet value-added services	**Mobile and telecommunications value-added services**	**Online advertising**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenues (revenues from external customers)	**1,904,563**	**439,545**	**146,563**	**13,694**	**2,504,365**
Gross profit/(loss)	**1,359,939**	**270,485**	**94,562**	**(6,535)**	**1,718,451**
Other losses, net					**(771)**
Selling and marketing expenses					**(98,105)**
General and administrative expenses					**(455,018)**
Operating profit					**1,164,557**
Finance income					**248**
Share of profit of associates					**5,372**
Profit before income tax					**1,170,177**

	Unaudited Three months ended 31 March 2008				
	Internet value-added services	Mobile and telecommunications value-added services	Online advertising	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenues (revenues from external customers)	998,733	288,291	144,580	1,307	1,432,911
Gross profit/(loss)	764,191	184,332	105,089	(9,166)	1,044,446
Other gains, net					47,448
Selling and marketing expenses					(85,934)
General and administrative expenses					(268,642)
Operating profit					737,318
Finance costs					(94,466)
Profit before income tax					642,852

3 **Accounts receivable**

	Unaudited 31 March 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
0 - 30 days	**607,876**	550,813
31 days - 60 days	**206,262**	172,461
61 days - 90 days	**66,193**	67,593
Over 90 days but less than a year	**223,666**	192,592
	1,103,997	983,459

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

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

4 **Share option and share award schemes**

(a) **Share option schemes**

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

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

The Pre-IPO Option Scheme was adopted by the Company on 27 July 2001. As at the listing of the Company on 16 June 2004, all options under 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 on 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 an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit so refreshed shall not exceed 5% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme II will expire no later than the last day of a seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme II).

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes of the Company (including the Pre-IPO Option Scheme and the Post-IPO Option Scheme I) must not in aggregate exceed 30% of issued shares 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 a general meeting at which the relevant eligible person and his associates are abstained from voting. In calculating the aforesaid limit of 1%, options that have lapsed shall not be counted.

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2008	USD0.1039	8,748,862	HKD9.8131	50,196,082	HKD32.4668	17,435,676	76,380,620
Granted	–	–	–	–	HKD46.3492	6,479,177	6,479,177
Exercised	USD0.1083	(2,687,042)	HKD6.9646	(3,706,693)	–	–	(6,393,735)
Lapsed	–	–	HKD7.8852	(644,419)	HKD37.0400	(980,280)	(1,624,699)
At 31 March 2008	USD0.1019	6,061,820	HKD10.0683	45,844,970	HKD36.1930	22,934,573	74,841,363
Currently exercisable as at 31 March 2008	USD0.0868	5,510,670	HKD8.1770	13,325,969	–	–	18,836,639
At 1 January 2009	**USD0.0964**	**4,124,083**	**HKD10.4762**	**37,615,536**	**HKD41.2330**	**28,715,506**	**70,455,125**
Granted	**–**	**–**	**–**	**–**	**HKD48.0100**	**380,000**	**380,000**
Exercised	**USD0.2075**	**(492,720)**	**HKD7.0313**	**(3,847,016)**	**HKD35.7710**	**(52,058)**	**(4,391,794)**
Lapsed	**USD0.0497**	**(254,000)**	**HKD7.8845**	**(116,634)**	**HKD40.7632**	**(90,011)**	**(460,645)**
At 31 March 2009	**USD0.0837**	**3,377,363**	**HKD10.8790**	**33,651,886**	**HKD41.3332**	**28,953,437**	**65,982,686**
Currently exercisable as at 31 March 2009	**USD0.0837**	**3,377,363**	**HKD9.0575**	**17,943,839**	**HKD40.8564**	**1,458,421**	**22,779,623**

During the three months ended 31 March 2009, no share options (for the three months ended 31 March 2008: Nil) were granted to any director of the Company or any consultant.

As a result of options exercised during the three months ended 31 March 2009, 4,391,794 (for the three months ended 31 March 2008: 6,393,735) ordinary shares were issued. The weighted average price of the shares at the time these options were exercised was HKD51.25 per share (for the three months ended 31 March 2008: HKD50.09 per share).

(b) **Share award scheme**

On 13 December 2007, 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 share scheme trust 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. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them.

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.

Movements in the number of awarded shares for the three months ended 31 March 2009 (for the three months ended 31 March 2008: Nil) are as follows:

	Awarded shares		
	Shares acquired by the Trustee	**Shares allotted to share scheme trust**	**Total**
At 1 January 2009	465,480	883,970	1,349,450
Granted	145,700	–	145,700
At 31 March 2009	611,180	883,970	1,495,150

During the three months ended 31 March 2009, no awarded shares (the three months ended 31 March 2008: Nil) were granted to any director of the Company or any consultant.

5 **Accounts payable**

Accounts payable and their ageing analysis are as follows:

	Unaudited 31 March 2009	Audited 31 December 2008
	RMB'000	*RMB'000*
0 - 30 days	**335,172**	202,237
31 days - 60 days	**42,175**	25,225
61 days - 90 days	**27,386**	1,269
Over 90 days but less than a year	**34,087**	15,916
	438,820	244,647

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

	Unaudited Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Interest income	**34,049**	25,234
Gains on financial assets held for trading	**–**	5,583
Government subsidies	**3,541**	14,100
Donation to a charity fund established by the Group	**(30,000)**	–
Others	**(8,361)**	2,531
	(771)	47,448

7 **Expenses by nature**

	Unaudited Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Employee benefits expenses *(Note)*	**479,949**	264,976
Mobile and telecommunications charges and bandwidth and server custody fees	**356,225**	226,679
Content costs and agency fees	**223,830**	62,972
Promotion and advertising expenses	**45,913**	32,141
Travelling and entertainment expenses	**24,850**	19,780
Depreciation of fixed assets *(Note)*	**87,432**	53,272
Amortisation of intangible assets	**37,997**	11,705
Operating lease rentals in respect of office buildings	**24,479**	22,480
Other expenses	**58,362**	49,036
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**1,339,037**	743,041

Note:

Research and development expenses were RMB271,273,000 for the three months ended 31 March 2009 (for the three months ended 31 March 2008: RMB133,188,000), which included employee benefits expenses of approximately RMB213,286,000 (for the three months ended 31 March 2008: RMB102,861,000) and fixed assets depreciation of approximately RMB53,081,000 (for the three months ended 31 March 2008: RMB28,022,000).

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

8 **Income tax expense**

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

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

The Group has not been subject to any taxation in these jurisdictions for the three months ended 31 March 2009 and 2008.

(b) **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 months ended 31 March 2009 and 2008.

(c) **PRC Enterprise Income Tax ("EIT")**

EIT is provided on the assessable income of entities within the Group incorporated in the PRC, and 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 ("New EIT Law"), the new enterprise income tax rate for domestic and foreign enterprises is unified at 25%, effective 1 January 2008. In addition, the New EIT 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 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 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 ("Beijing Hi-tech Zone") before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rate shall be based on the above transitional income tax rate in that year.

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

According to the special tax incentives granted by the local tax authority in Beijing, Tencent Beijing is exempt from EIT for three years starting from the first year of its commercial operation, followed by a 50% reduction for the next three years. 2005 was its first year of operation and accordingly, the provision for EIT was provided at a rate of 7.5% for the three months ended 31 March 2009 (for the three months ended 31 March 2008: 7.5%).

As approved by the relevant tax authority, Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin") is exempt from EIT for two years commencing from the first year of profitable operation after offsetting prior years' tax losses, followed by a 50% reduction for the next three years. For each year of the tax holiday to be eligible for the exemption, the annual productive sales income for that year shall exceed 50% of its reported total sales income. 2008 was the first profit-making year of Cyber Tianjin, and no provision for EIT was provided for the three months ended 31 March 2009.

The taxation charges of the Group for the three months ended 31 March 2009 and 2008 are analysed as follows:

	Unaudited Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
PRC current tax	**105,030**	130,237
Deferred tax	**11,537**	(29,397)
	116,567	100,840

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

	Unaudited Three months ended 31 March	
	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**1,170,177**	642,852
Less: Share of profit of associates	**(5,372)**	–
	1,164,805	642,852
Tax calculated at a tax rate of 20% (for the three months ended 31 March 2008: 18%)	**232,961**	115,713
Effects of different tax rates available to different companies of the Group	**(40,567)**	4,150
Effects of tax holiday on assessable profits of subsidiaries	**(106,208)**	(22,189)
Expenses not deductible for tax purposes	**10,932**	10,887
Unrecognised/(utilisation of previously unrecognised) deferred tax assets	**19,449**	(7,721)
Tax charge	**116,567**	100,840

9 **Earnings per share**

(a) **Basic**

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

	Unaudited Three months ended 31 March	
	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	**1,035,440**	534,378
Weighted average number of ordinary shares in issue (thousand shares)	**1,795,538**	1,792,334
Basic EPS (RMB per share)	**0.577**	0.298

(b) **Diluted**

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

	Unaudited Three months ended 31 March	
	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	**1,035,440**	534,378
Weighted average number of ordinary shares in issue (thousand shares)	**1,795,538**	1,792,334
Adjustments for share options (thousand shares)	**34,511**	51,165
Adjustments for awarded shares (thousands shares)	**169**	–
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,830,218**	1,843,499
Diluted EPS (RMB per share)	**0.566**	0.290

10 Dividends

Pursuant to a resolution passed by the Board on 18 March 2009, a final dividend in respect of the year ended 31 December 2008 of HKD0.25 (2007: HKD0.16) per share and a special dividend of HKD0.10 per share to celebrate the tenth year anniversary of the Group, were proposed and are subject to the approval of shareholders in the annual general meeting to be held on 13 May 2009. Such proposed dividends have neither been shown as an appropriation nor reflected as dividends payable in the Interim Financial Information, but will be accounted for in shareholders' equity as an appropriation of retained earnings during the period in which the distribution is approved.

The Board did not propose any interim dividends.

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:

	For the 16-day period ended 31 March 2009	For the 16-day period ended 31 December 2008	Percentage Change
	(in millions)		
Registered IM user accounts (at end of period)	**934.9**	891.9	4.82%
Active user accounts (at end of period)	**410.8**	376.6	9.08%
Peak simultaneous online user accounts (for the quarter)	**57.5**	49.7	15.69%
Average daily user hours	**847.3**	710.9	19.19%
Average daily messages(1)	**4,991.0**	4,282.6	16.54%
Fee-based Internet value-added services registered subscriptions (at end of period)	**36.9**	31.4	17.52%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period)(2)	**16.8**	14.7	14.29%

(1) Average daily messages include messages exchanged between IM client software installed on PCs or mobile devices only and exclude messages exchanged with PCs or mobile devices through channels other than IM client software.

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

In the first quarter of 2009, our IM platform registered solid growth both in terms of user number and user activity, as evidenced by the increase in all key operating indicators, namely registered IM user accounts, active user accounts, peak simultaneous online user accounts, average daily user hours and average daily messages. This was mainly attributable to the positive seasonal impact of the Chinese New Year holidays and winter break for students, as well as the continuing growth of the Internet market in China. The quarter saw significant increase in registered subscriptions to our fee-based Internet value-added services, primarily driven by QQ Membership, Qzone, QQ Show and QQ Game. Registered subscriptions to our fee-based mobile and telecommunications value-added services increased due to the organic growth in our bundled SMS packages, mainly driven by the addition of privileges and enhancements in user experience as well as increased promotions across different channels.

FINANCIAL PERFORMANCE HIGHLIGHTS

Unaudited consolidated revenues for the first quarter of 2009 were RMB2,504.4 million, an increase of 74.8% over the same period in 2008 and an increase of 19.4% from the fourth quarter of 2008.

Revenues from Internet value-added services for the first quarter of 2009 were RMB1,904.6 million, an increase of 90.7% over the same period in 2008 and an increase of 28.8% from the fourth quarter of 2008.

Revenues from mobile and telecommunications value-added services for the first quarter of 2009 were RMB439.5 million, an increase of 52.5% over the same period in 2008 and an increase of 9.9% from the fourth quarter of 2008.

Revenues from online advertising for the first quarter of 2009 were RMB146.6 million, an increase of 1.4% over the same period in 2008 and a decrease of 30.1% from the fourth quarter of 2008.

Cost of revenues for the first quarter of 2009 were RMB785.9 million, an increase of 102.3% over the same period in 2008 and an increase of 15.0% from the fourth quarter of 2008.

Other losses of RMB0.8 million were recorded for the first quarter of 2009, compared to other gains of RMB47.4 million for the same period in 2008 and other gains of RMB45.8 million for the fourth quarter of 2008.

Selling and marketing expenses for the first quarter of 2009 were RMB98.1 million, an increase of 14.2% over the same period in 2008 and a decrease of 33.4% from the fourth quarter of 2008.

General and administrative expenses for the first quarter of 2009 were RMB455.0 million, an increase of 69.4% over the same period in 2008 and an increase of 19.8% from the fourth quarter of 2008.

Operating profit for the first quarter of 2009 was RMB1,164.6 million, representing an increase of 57.9% over the same period in 2008 and an increase of 24.8% from the fourth quarter of 2008. As a percentage of revenues, operating profit accounted for 46.5% for the first quarter of 2009, compared to 51.5% for the same period of 2008 and 44.5% for the fourth quarter of 2008.

Profit for the first quarter of 2009 was RMB1,053.6 million, representing an increase of 94.4% from the same period in 2008 and an increase of 20.3% from the fourth quarter of 2008. As a percentage of revenues, profit for the period accounted for 42.1% for the first quarter of 2009, compared to 37.8% for the same period of 2008 and 41.8% for the fourth quarter of 2008.

Profit attributable to equity holders of the Company for the first quarter of 2009 was RMB1,035.4 million, representing an increase of 93.8% from the same period in 2008 and an increase of 19.1% from the fourth quarter of 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2009 Compared to Fourth Quarter of 2008

The following table sets forth the comparative figures for the first quarter of 2009 and the fourth quarter of 2008:

	Unaudited	
	Three months ended	
	31 March 2009	31 December 2008
	RMB'000	*RMB'000*
Revenues	**2,504,365**	2,097,381
Cost of revenues	**(785,914)**	(683,139)
Gross profit	**1,718,451**	1,414,242
Other (losses)/gains, net	**(771)**	45,804
Selling and marketing expenses	**(98,105)**	(147,271)
General and administrative expenses	**(455,018)**	(379,921)
Operating profit	**1,164,557**	932,854
Finance income	**248**	2,596
Share of profit of associates	**5,372**	1,387
Profit before income tax	**1,170,177**	936,837
Income tax expense	**(116,567)**	(60,688)
Profit for the period	**1,053,610**	876,149
Attributable to:		
Equity holders of the Company	**1,035,440**	869,097
Minority interests	**18,170**	7,052

Revenues. Revenues increased by 19.4% to RMB2,504.4 million for the first quarter of 2009 from RMB2,097.4 million for the fourth quarter of 2008. The following table sets forth our revenues by line of business for the first quarter of 2009 and the fourth quarter of 2008:

	Unaudited Three months ended			
	31 March 2009		31 December 2008	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,904,563**	**76.0%**	1,478,601	70.5%
Mobile and telecommunications value-added services	**439,545**	**17.6%**	399,884	19.1%
Online advertising	**146,563**	**5.9%**	209,611	10.0%
Others	**13,694**	**0.5%**	9,285	0.4%
Total revenues	**2,504,365**	**100.0%**	2,097,381	100.0%

- Revenues from our Internet value-added services increased by 28.8% to RMB1,904.6 million for the first quarter of 2009 from RMB1,478.6 million for the fourth quarter of 2008, reflecting the positive seasonal impact of the Chinese New Year holidays and winter break for students as well as our continued efforts in service enhancements. Online gaming revenues posted significant growth during the quarter on the back of seasonal promotions in and increased monetization of advanced casual games and MMOG launched in 2008 as well as the organic growth of QQ Game. For advanced casual games, Cross Fire and QQ Dancer gained significant traction and posted robust revenue increase during the quarter. For MMOG, Dungeon and Fighter ("DNF") registered growth in the number of peak concurrent users. Revenues from community value-added services recorded increase, mainly driven by the growth in QQ Membership and Qzone during the favorable season. Revenues from QQ Membership grew with enhanced user loyalty and stickiness as a result of the introduction of more valued-added functions and privileges. Growth in revenues from Qzone was mainly attributable to increase in number of active users and user activity.

– Revenues from our mobile and telecommunications value-added services increased by 9.9% to RMB439.5 million for the first quarter of 2009 from RMB399.9 million for the fourth quarter of 2008. This was mainly driven by the growth in our bundled SMS packages due to ongoing addition of privileges, enhancements in user experience of our services as well as increased promotions across different channels. Revenues from our mobile gaming services also increased as a result of the growing popularity of mobile games.

– Revenues from online advertising decreased by 30.1% to RMB146.6 million for the first quarter of 2009 from RMB209.6 million for the fourth quarter of 2008. The decline reflected lower advertising spending by our customers as they imposed more cautious cost control measures, which include delaying the budget approval process and signing of framework contracts, under the uncertain economic environment. In addition, the first quarter is generally a weak season for advertising mainly due to reduced activities around the Chinese New Year holidays.

Cost of revenues. Cost of revenues increased by 15.0% to RMB785.9 million for the first quarter of 2009 from RMB683.1 million for the fourth quarter of 2008. This was mainly driven by the increase in sharing costs, staff costs and telecommunications operators' revenue share. As a percentage of revenues, cost of revenues decreased to 31.4% for the first quarter of 2009 from 32.6% for the fourth quarter of 2008. The following table sets forth our cost of revenues by line of business for the first quarter of 2009 and the fourth quarter of 2008:

	Unaudited Three months ended			
	31 March 2009		31 December 2008	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**544,624**	**28.6%**	463,721	31.4%
Mobile and telecommunications value-added services	**169,060**	**38.5%**	151,634	37.9%
Online advertising	**52,001**	**35.5%**	54,466	26.0%
Others	**20,229**	**147.7%**	13,318	143.4%
Total cost of revenues	**785,914**		683,139	

- Cost of revenues for our Internet value-added services increased by 17.4% to RMB544.6 million for the first quarter of 2009 from RMB463.7 million for the fourth quarter of 2008. The increase mainly reflected higher sharing costs driven by the growth in revenues from licensed games. Staff costs and telecommunications operators' revenue share also increased as a result of the continuing expansion of our business.

- Cost of revenues for our mobile and telecommunications value-added services increased by 11.5% to RMB169.1 million for the first quarter of 2009 from RMB151.6 million for the fourth quarter of 2008. This was mainly due to the increase in staff costs and the amount of revenue share paid to telecommunications operators driven by the growth in our business volume. Sharing costs also increased as a result of higher revenues from mobile games.

- Cost of revenues for our online advertising decreased by 4.5% to RMB52.0 million for the first quarter of 2009 from RMB54.5 million for the fourth quarter of 2008. During the quarter, the amount of sales commissions paid to advertising agencies decreased as a result of the decline in advertising revenues. The decrease was partially offset by higher staff costs.

Other (losses)/gains, net. We recorded other losses of RMB0.8 million for the first quarter of 2009 compared to other gains of RMB45.8 million for the fourth quarter of 2008. The change primarily reflected that a donation of RMB30.0 million was made to the Tencent Charity Fund in the first quarter of 2009, whereas no donation was made in the previous quarter. In addition, government subsidies decreased significantly in the first quarter of 2009 as the amount for the previous quarter was particularly high. These were partially offset by the recognition of an impairment charge of RMB11.3 million for leasehold improvements in the fourth quarter of 2008 which was not repeated in the first quarter of 2009.

Selling and marketing expenses. Selling and marketing expenses decreased by 33.4% to RMB98.1 million for the first quarter of 2009 from RMB147.3 million for the fourth quarter of 2008. The decrease reflected reduced intensity of advertising and promotional activities for new games launched in 2008 as they have been introduced to the market for a few quarters already. This also reflected lower spending on brand advertising and promotion, as well as our cost control measures implemented under a challenging economic environment. As a percentage of revenues, selling and marketing expenses decreased to 3.9% in the first quarter of 2009 from 7.0% in the fourth quarter of 2008.

General and administrative expenses. General and administrative expenses increased by 19.8% to RMB455.0 million for the first quarter of 2009 from RMB379.9 million for the fourth quarter of 2008. The increase primarily reflected higher research and development costs driven by the expansion of our research and development effort as we continued to invest in technology and product enhancements. The increase also reflected higher staff costs due to the growth of our business. As a percentage of revenues, general and administrative expenses remained broadly stable at 18.2% in the first quarter of 2009 compared to 18.1% in the fourth quarter of 2008.

Finance income. Finance income decreased by 90.4% to RMB0.2 million for the first quarter of 2009 from RMB2.6 million for the fourth quarter of 2008. This reflected lower foreign exchange gains associated with our US dollar-denominated cash and investments.

Income tax expense. Income tax expense increased by 92.1% to RMB116.6 million for the first quarter of 2009 from RMB60.7 million for the fourth quarter of 2008. The increase mainly reflected higher profit before income tax. In addition, a significant amount of income tax expense was reversed in the fourth quarter of 2008 as certain subsidiaries were qualified as high/new technology or key software enterprises. Such reversal was not repeated in the first quarter of 2009. The aforementioned factors were partially offset by the recognition of deferred tax liabilities totaling RMB50 million in the fourth quarter of 2008, which was related to intra-group dividend expected to be paid by our PRC subsidiaries to their overseas parent companies, as a result of the new enterprise income tax law that became effective as of 1 January 2008.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 20.3% to RMB1,053.6 million for the first quarter of 2009 from RMB876.1 million for the fourth quarter of 2008. Net margin was 42.1% for the first quarter of 2009 compared to 41.8% for the fourth quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 19.1% to RMB1,035.4 million for the first quarter of 2009 from RMB869.1 million for the fourth quarter of 2008.

First Quarter of 2009 Compared to First Quarter of 2008

The following table sets forth the comparative figures for the first quarter of 2009 and the first quarter of 2008:

	Unaudited	
	Three months ended	
	31 March 2009	31 March 2008
	RMB'000	*RMB'000*
Revenues	**2,504,365**	1,432,911
Cost of revenues	**(785,914)**	(388,465)
Gross profit	**1,718,451**	1,044,446
Other (losses)/gains, net	**(771)**	47,448
Selling and marketing expenses	**(98,105)**	(85,934)
General and administrative expenses	**(455,018)**	(268,642)
Operating profit	**1,164,557**	737,318
Finance income/(costs)	**248**	(94,466)
Share of profit of associates	**5,372**	–
Profit before income tax	**1,170,177**	642,852
Income tax expense	**(116,567)**	(100,840)
Profit for the period	**1,053,610**	542,012
Attributable to:		
Equity holders of the Company	**1,035,440**	534,378
Minority interests	**18,170**	7,634

Revenues. Revenues increased by 74.8% to RMB2,504.4 million for the first quarter of 2009 from RMB1,432.9 million for the first quarter of 2008. The following table sets forth our revenues by line of business for the first quarter of 2009 and the first quarter of 2008:

	Unaudited			
	Three months ended			
	31 March 2009		31 March 2008	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,904,563**	**76.0%**	998,733	69.7%
Mobile and telecommunications value-added services	**439,545**	**17.6%**	288,291	20.1%
Online advertising	**146,563**	**5.9%**	144,580	10.1%
Others	**13,694**	**0.5%**	1,307	0.1%
Total revenues	**2,504,365**	**100.0%**	1,432,911	100.0%

- Revenues from our Internet value-added services increased by 90.7% to RMB1,904.6 million for the first quarter of 2009 from RMB998.7 million for the first quarter of 2008. Online gaming revenues increased strongly, primarily driven by the advanced casual games and MMOG launched in 2008, including Cross Fire, QQ Dancer, QQ Speed and DNF, as well as the organic growth of QQ Game. The quarter also saw increase in revenues from our community value-added services, mainly due to the growth in QQ Membership and Qzone. Revenues from QQ Membership grew as a result of enhanced user loyalty and stickiness driven by the introduction of more differentiated value-added functions and privileges across our platforms. Growth in revenues from Qzone was mainly due to increase in number of active users and user activity.

- Revenues from our mobile and telecommunications value-added services increased by 52.5% to RMB439.5 million for the first quarter of 2009 from RMB288.3 million for the first quarter of 2008. The increase was primarily driven by the growth in revenues from our bundled SMS packages as we added more privileges and enhanced the user experience of our services. The increase also reflected growth in revenues from our mobile gaming and WAP services.

– Revenues from online advertising increased slightly by 1.4% to RMB146.6 million for the first quarter of 2009 from RMB144.6 million for the first quarter of 2008. This primarily reflected the impact of the economic slowdown on advertising spending as advertisers imposed more cautions cost control measures, which include delaying the budget approval process and signing of framework contracts.

Cost of revenues. Cost of revenues increased by 102.3% to RMB785.9 million for the first quarter of 2009 from RMB388.5 million for the first quarter of 2008. This primarily reflected increase in sharing costs, telecommunications operators' revenue share, staff costs as well as bandwidth and server custody fees as our business continued to expand and as we implemented plans to pursue long-term growth. As a percentage of revenues, cost of revenues increased to 31.4% for the first quarter of 2009 from 27.1% for the first quarter of 2008. The following table sets forth our cost of revenues by line of business for the first quarter of 2009 and the first quarter of 2008:

	Unaudited Three months ended			
	31 March 2009		31 March 2008	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**544,624**	**28.6%**	234,542	23.5%
Mobile and telecommunications value-added services	**169,060**	**38.5%**	103,959	36.1%
Online advertising	**52,001**	**35.5%**	39,491	27.3%
Others	**20,229**	**147.7%**	10,473	801.3%
Total cost of revenues	**785,914**		388,465	

– Cost of revenues for our Internet value-added services increased by 132.2% to RMB544.6 million for the first quarter of 2009 from RMB234.5 million for the first quarter of 2008. The increase mainly reflected increase in sharing costs, bandwidth and server custody fees, telecommunications operators' revenue share and staff costs as our business scale expanded during the quarter. The increase in sharing costs was mainly due to the launch of successful licensed games during 2008, including DNF and Cross Fire.

– Cost of revenues for our mobile and telecommunications value-added services increased by 62.6% to RMB169.1 million for the first quarter of 2009 from RMB104.0 million for the first quarter of 2008. The increase primarily reflected increase in telecommunications operators' revenue share which was broadly in line with the growth in revenues. It also reflected higher staff costs as a result of our continued business expansion and increase in sharing costs driven by the growing popularity of mobile games.

– Cost of revenues for our online advertising increased by 31.7% to RMB52.0 million for the first quarter of 2009 from RMB39.5 million for the first quarter of 2008. The increase mainly reflected higher staff costs due to the expansion of our online advertising team for supporting long-term growth of the business and salary increases implemented in 2008.

Other (losses)/gains, net. We recorded other losses of RMB0.8 million for the first quarter of 2009 compared to other gains of RMB47.4 million for the first quarter of 2008. The change primarily reflected that a donation of RMB30.0 million was made to the Tencent Charity Fund in the first quarter of 2009, whereas no donation was made in the same period last year. In addition, government subsidies decreased in the first quarter of 2009. These were partially offset by higher interest income for the quarter.

Selling and marketing expenses. Selling and marketing expenses increased by 14.2% to RMB98.1 million for the first quarter of 2009 from RMB85.9 million for the first quarter of 2008. The increase was primarily driven by higher promotional and advertising spending as our business continued to expand, partly offset by more stringent cost control measures implemented under a challenging economic environment. As a percentage of revenues, selling and marketing expenses decreased to 3.9% in the first quarter of 2009 from 6.0% in the first quarter of 2008.

General and administrative expenses. General and administrative expenses increased by 69.4% to RMB455.0 million for the first quarter of 2009 from RM268.6 million for the first quarter of 2008. The increase primarily reflected the higher research and development costs mainly driven by the expansion of our research and development effort for pursuing future growth. The increase also reflected higher staff costs due to the growth in headcount for supporting our expanding business and salary increases implemented in 2008. As a percentage of revenues, general and administrative expenses decreased slightly to 18.2% in the first quarter of 2009 from 18.7% in the first quarter of 2008.

Finance income/(costs). We recorded finance income of RMB0.2 million for the first quarter of 2009 compared to finance costs of RMB94.5 million for the first quarter of 2008. A foreign exchange gain associated with our US dollar-denominated cash and investments arising from the depreciation of Renminbi was recorded in the first quarter of 2009. In contrast, a foreign exchange loss was recognized in the first quarter of 2008, during which Renminbi appreciated significantly against US dollar.

Income tax expense. Income tax expense increased by 15.6% to RMB116.6 million for the first quarter of 2009 from RMB100.8 million for the first quarter of 2008. The increase primarily reflected higher profit before income tax, partly offset by lower income tax rates applicable to certain subsidiaries as they have been qualified as high/new technology enterprises as well as the tax exemption granted to one of our subsidiaries.

Profit for the period. Profit for the period increased by 94.4% to RMB1,053.6 million for the first quarter of 2009 from RMB542.0 million for the first quarter of 2008. Net margin was 42.1% for the first quarter of 2009 compared to 37.8% for the first quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 93.8% to RMB1,035.4 million for the first quarter of 2009 from RMB534.4 million for the first quarter of 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2009 and 31 December 2008, we had the following major financial resources in the form of cash and investments:

	Unaudited 31 March 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Cash and cash equivalents	**3,803,523**	3,067,928
Term deposits with initial term of over three months	**2,464,401**	1,662,501
Financial assets held for trading	**329,866**	329,804
Held-to-maturity investments	**–**	68,346
Total	**6,597,790**	5,128,579

As at 31 March 2009, RMB1,628.7 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. Since there are no cost-effective hedges against the fluctuation of Renminbi and no effective manner to generally convert a significant amount of non-Renminbi currencies into Renminbi, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no interest-bearing borrowings as at 31 March 2009.

BUSINESS REVIEW AND OUTLOOK

We delivered solid financial and operating results for the first quarter of 2009. Our Internet value-added services ("IVAS") recorded significant growth with positive seasonal impact of the Chinese New Year holidays and winter break for students as well as the increased monetization of online games launched in 2008. Our mobile and telecommunications value-added services ("MVAS") also registered healthy growth, thanks to the increasing popularity of our bundled SMS packages and mobile gaming services. The first quarter saw a significant quarter-on-quarter reduction in online advertising revenues, mainly due to lower advertising spending by our customers as they imposed more cautious cost control measures in response to the economic slowdown. The first quarter was also a weak season for advertising due to reduced activities around the Chinese New Year holidays. Looking ahead, the second quarter of 2009 would present a weaker seasonality for our IVAS business. On the other hand, we expect our online advertising business to benefit from relatively better seasonality in the second quarter, although the overall industry outlook continues to be weak.

We expect the economic environment to remain challenging as we are still in the midst of a global recession. Our Internet and mobile value-added services, which are characterized by user-paid small ticket consumption items, have so far been rather resilient in the downturn, although we are uncertain of their performance should the downturn continue for a prolonged period. Our online advertising business would continue to be affected by the economic slowdown as advertisers remain cautious on their spending for 2009. Despite these challenges, we observed that the time spent online by users would not decrease even under a weakened economic environment as the Internet is increasingly an indispensable part of everyday life for people in China. This allows us to continue our engagement of users in an economic downturn and to build our business for growth over the long term.

IM Platform

Our core IM platform registered solid growth in the first quarter of 2009 with active users and peak concurrent users ("PCU") increasing to 411 million and 58 million respectively. This was driven by positive seasonality and the continued growth in the Internet market of China. We have launched a major upgrade to our IM service, which not only enhances the user experience, but will also enable us to better address different needs of our significant user base. We will further improve the functionalities and user experience of our IM service to maintain our leading position in China. We will also focus on maximizing user value by enhancing the integration with our other key products.

QQ.com

Our QQ.com portal enjoyed continued growth in traffic. We have been focusing on enhancing our media influence and brand position through advertising campaigns and major sponsorship events, including the Boao Forum for Asia Annual Conference 2009 and the 2010 World Exposition in Shanghai. We are also increasing the breadth and depth of our content as well as refining our technology platform and operations.

Internet value-added services

For community value-added services, QQ Membership registered healthy growth during the quarter as we continued to enhance user loyalty and stickiness with bundling and improved functionalities. We will continue to expand privileges, including the exploration of providing offline lifestyle services, to increase the attractiveness of QQ Membership's offering. The active users of Qzone grew significantly and reached 183 million at the end of the first quarter, as we continued to enhance its user experience and features as well as launched new applications, such as social games, to deepen interaction among users. For QQ Show, a new shopping mall interface has been introduced to allow users to find their favorite items more easily. The monthly subscription also registered organic growth, demonstrating its transition from item-based to subscription-based business model has been successful. QQ Pet benefited from positive seasonality in the first quarter but the secular trend remained flat. We are still in the process of developing new multi-player community functions to encourage cross interaction among users.

For online gaming, we continued to benefit from our strategy of building a diversified product portfolio that leverages the advantage of our online platforms. QQ Game further extended its position as the largest mini-casual game portal in China with PCU increasing to 5.8 million in the first quarter of 2009, thanks to enhanced architecture, improved user experience and additional promotions. For advanced casual games, both Cross Fire and QQ Dancer gained traction during the quarter and posted growth in revenues. In April 2009, Cross Fire made a breakthrough by achieving over 1 million in PCU. For MMOG, DNF continued to receive strong market response and its PCU exceeded 1.5 million during the quarter. Looking forward, competition in the online gaming industry is intensifying with the expected launch of major competing games and the increasing fight for talent in the industry. While this may create pressure on the performance of our games in the short term, we believe we are well positioned over the long run, riding on our platform strategy as well as our strong gaming expertise. We will continue to enrich our game portfolio through a combination of self-development, licensing and investments and are on track to launch three MMOGs and one advanced casual game in 2009.

Mobile and telecommunications value-added services

Our MVAS business posted healthy growth in the first quarter of 2009, mainly driven by our bundled SMS packages and mobile gaming services. There was strong growth in traffic on our WAP portal, reinforcing our leading position in the free WAP portal industry. We have been positioning ourselves for future growth opportunities brought about by the launch of 3G networks in China. In particular, we have broadened our cooperation with China Mobile on mobile value-added services, allowing us to leverage our WAP portal to introduce and better monetize our services with enhanced payment channels and user experience. Looking ahead, while the launch of 3G in China will open up more opportunities for all mobile value-added services providers, visibility of the tangible benefits remains low as the industry value chain is still evolving.

Online advertising

In the first quarter of 2009, our advertising business was affected by advertisers' cautious cost control measures under a weakened economic environment. The negative impact was particularly significant in the first two months of the quarter as advertisers delayed their signing of framework contracts for the year. Since March 2009, there has been an increase in advertising spending as advertisers completed their budget approval processes and the signing of framework contracts. For the second quarter of 2009, we expect our online advertising business to benefit from relatively better seasonality. However, we believe that advertisers are still cautious on advertising spending for the year and the visibility of the business remains low. We will continue to invest prudently in building our sales organization, technology platform, content, branding and relationship with advertisers to enhance our market position and competitiveness for the long run.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 March 2009, the Group had 6,123 employees (31 March 2008: 4,733), 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 awards and share options may be awarded 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 31 March 2009 was RMB481.8 million (for the three months ended 31 March 2008: RMB266.5 million).

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

During the three months ended 31 March 2009, the Company repurchased 1,922,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD84.4 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

		Purchase consideration per share		
Month of purchase in the three months ended 31 March 2009	*No. of shares purchased*	*Highest price paid HKD*	*Lowest price paid HKD*	*Aggregate consideration paid HKD*
January	1,822,000	45.80	41.50	79,706,000
February	100,000	47.00	45.80	4,644,000
Total	1,922,000			84,350,000

Save as disclosed above and in the "Financial Information" section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2009.

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 months ended 31 March 2009.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2008 annual report of the Company which was the position as at 31 December 2008, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three months ended 31 March 2009, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

Appreciation

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

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 13 May 2009

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.