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 2010

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 2010. These interim results have been reviewed by PricewaterhouseCoopers, the auditor of the Company (the "Auditor"), 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 2010

	Note	**Unaudited 31 March 2010** *RMB'000*	Audited 31 December 2009 *RMB'000*
ASSETS			
Non-current assets			
Fixed assets		**2,688,833**	2,517,202
Construction in progress		**123,824**	105,771
Investment properties		**67,703**	68,025
Land use rights		**35,109**	35,296
Intangible assets		**277,620**	268,713
Investment in associates		**612,856**	477,622
Deferred income tax assets		**286,862**	301,016
Held-to-maturity investments		**341,315**	341,410
Available-for-sale financial assets		**174,031**	153,462
Prepayments, deposits and other receivables		**12,799**	80,306
		4,620,952	4,348,823
Current assets			
Accounts receivable	3	**1,610,069**	1,229,436
Prepayments, deposits and other receivables		**431,937**	373,642
Term deposits with initial term of over three months		**6,673,010**	5,310,168
Restricted cash		**1,008,175**	200,000
Cash and cash equivalents		**6,795,966**	6,043,696
		16,519,157	13,156,942
Total assets		**21,140,109**	17,505,765

	Note	Unaudited 31 March 2010 *RMB'000*	Audited 31 December 2009 *RMB'000*
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		**197**	197
Share premium		**1,283,509**	1,244,425
Shares held for share award scheme		**(155,664)**	(123,767)
Share-based compensation reserve		**804,623**	703,563
Other reserves		**(66,030)**	(166,364)
Retained earnings		**12,297,564**	10,520,453
		14,164,199	12,178,507
Minority interests in equity		**112,672**	120,146
Total equity		**14,276,871**	12,298,653
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**403,229**	369,983
Long-term payables	5	**12,799**	274,050
		416,028	644,033
Current liabilities			
Accounts payable	6	**937,360**	696,511
Other payables and accruals		**1,793,618**	1,626,051
Short-term bank borrowings		**988,448**	202,322
Current income tax liabilities		**288,728**	85,216
Other tax liabilities		**272,939**	216,978
Deferred revenue		**2,166,117**	1,736,001
		6,447,210	4,563,079
Total liabilities		**6,863,238**	5,207,112
Total equity and liabilities		**21,140,109**	17,505,765
Net current assets		**10,071,947**	8,593,863
Total assets less current liabilities		**14,692,899**	12,942,686

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2010

		Unaudited Three months ended 31 March	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Revenues			
Internet value-added services		**3,387,377**	1,904,563
Mobile and telecommunications value-added services		**618,238**	439,545
Online advertising		**204,334**	146,563
Others		**16,111**	13,694
		4,226,060	2,504,365
Cost of revenues	8	**(1,328,355)**	(785,914)
Gross profit		**2,897,705**	1,718,451
Interest income		**57,191**	34,049
Other losses, net	7	**(35,275)**	(34,820)
Selling and marketing expenses	8	**(185,417)**	(98,105)
General and administrative expenses	8	**(585,766)**	(455,018)
Operating profit	*	**2,148,438**	1,164,557
Finance (costs)/income		**(1,558)**	248
Share of profit of associates		**12,913**	5,372
Profit before income tax		**2,159,793**	1,170,177
Income tax expense	9	**(357,375)**	(116,567)
Profit for the period/Total comprehensive income for the period		**1,802,418**	1,053,610
Attributable to:			
Equity holders of the Company		**1,783,194**	1,035,440
Minority interests		**19,224**	18,170
		1,802,418	1,053,610

		Unaudited Three months ended 31 March	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)			
- basic	10	**0.984**	0.577
- diluted	10	**0.959**	0.566

* After deduction of share-based compensation charge amounting to RMB100,972,000 for the three months ended 31 March 2010 (for the three months ended 31 March 2009: RMB49,334,000).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2010

	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 2010	**197**	**1,244,425**	**(123,767)**	**703,563**	**(166,364)**	**10,520,453**	**12,178,507**	**120,146**	**12,298,653**
Profit for the period/Total comprehensive income for the period	–	–	–	–	–	**1,783,194**	**1,783,194**	**19,224**	**1,802,418**
Employee share option schemes:									
- value of employee services	–	–	–	**30,299**	–	–	**30,299**	–	**30,299**
- proceeds from shares issued	–	**40,078**	–	–	–	–	**40,078**	–	**40,078**
Employee share award scheme:									
- value of employee services	–	–	–	**70,761**	–	–	**70,761**	–	**70,761**
- shares purchased for share award scheme	–	–	**(32,891)**	–	–	–	**(32,891)**	–	**(32,891)**
- vesting of awarded shares	–	**(994)**	**994**	–	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	–	**6,083**	**(6,083)**	–	–	–
Dividends	–	–	–	–	–	–	–	**(26,693)**	**(26,693)**
Exercise of put option granted to minority shareholders	–	–	–	–	**5**	–	**5**	**(5)**	–
Reversal of the liabilities in respect of the put options granted to minority shareholders	–	–	–	–	**94,246**	–	**94,246**	–	**94,246**
Balance at 31 March 2010	**197**	**1,283,509**	**(155,664)**	**804,623**	**(66,030)**	**12,297,564**	**14,164,199**	**112,672**	**14,276,871**
Balance at 1 January 2009	195	1,155,209	(21,809)	381,439	(433,038)	5,938,930	7,020,926	98,406	7,119,332
Profit for the period/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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2010

	Unaudited Three months ended 31 March	
	2010	2009
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**2,548,719**	1,634,463
Net cash flows used in investing activities	**(2,562,351)**	(844,823)
Net cash flows from/(used in) financing activities	**766,620**	(54,262)
Net increase in cash and cash equivalents	**752,988**	735,378
Cash and cash equivalents at beginning of period	**6,043,696**	3,067,928
Exchange (losses)/gains on cash and cash equivalents	**(718)**	217
Cash and cash equivalents at end of period	**6,795,966**	3,803,523
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**3,677,476**	1,887,529
Short-term highly liquid investments with initial term of three months or less	**3,118,490**	1,915,994
	6,795,966	3,803,523

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 2010, the related consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the condensed consolidated statement of cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "Interim Financial Information") of the Group were approved by the Board on 12 May 2010.

The Interim Financial Information is 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 2009 (the "2009 Financial Statements") as set out in the 2009 annual report of the Company dated 17 March 2010.

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 2009 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.

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

The following new standards and amendments to existing standards, which have been published and are mandatory for the financial year beginning 1 January 2010, are relevant to the Group:

IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
IFRS 3 (Revised)	Business Combinations

The Group has applied the IAS 27 (Revised), the IFRS 2 (Amendment) and the IFRS 3 (Revised) and management considers they do not have a significant impact on the Interim Financial Information.

2 **Segment information**

The Group has the following reportable segments for the three months ended 31 March 2010 and 2009:

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

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

There were no inter-segment sales during the three months ended 31 March 2010 and 2009.

The segment information provided to the chief operating decision-makers for the three months ended 31 March 2010 and 2009 is as follows:

	Unaudited				
	Three months ended 31 March 2010				
	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 (revenue from external customers)	**3,387,377**	**618,238**	**204,334**	**16,111**	**4,226,060**
Gross profit/(loss)	**2,374,449**	**396,892**	**133,391**	**(7,027)**	**2,897,705**
Depreciation	**67,574**	**6,487**	**3,548**	**2,654**	**80,263**
Amortisation	**17,292**	**–**	**–**	**–**	**17,292**
Share of profit of associates	**9,706**	**3,207**	**–**	**–**	**12,913**

	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 (revenue 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
Depreciation	25,593	3,790	1,136	1,140	31,659
Amortisation	23,696	–	–	–	23,696
Share of profit of associates	1,484	3,888	–	–	5,372

3 **Accounts receivable**

	Unaudited **31 March** **2010** ***RMB'000***	Audited 31 December 2009 *RMB'000*
0 - 30 days	**876,898**	690,858
31 days - 60 days	**303,839**	173,331
61 days - 90 days	**118,916**	112,752
Over 90 days but less than a year	**310,416**	252,495
	1,610,069	1,229,436

The receivable balances as at 31 March 2010 mainly represented the amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, and online 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 by them within a period of 30 to 120 days. Online advertising customers usually have a credit period of 90 days after full execution of the contracted advertisement orders.

4 **Share option and share award schemes**

(a) **Share option schemes**

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

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

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

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

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

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

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

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

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. The Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption.

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 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
At 1 January 2010	**USD0.0812**	**1,865,068**	**HKD11.5050**	**24,941,918**	**HKD45.1756**	**28,991,419**	**–**	**–**	**55,798,405**
Granted	**–**	**–**	**–**	**–**	**HKD158.5000**	**750,000**	**HKD158.5000**	**1,000,000**	**1,750,000**
Exercised	**USD0.0552**	**(864,040)**	**HKD8.5503**	**(3,437,942)**	**HKD47.1867**	**(334,226)**	**–**	**–**	**(4,636,208)**
Lapsed	**–**	**–**	**HKD17.9597**	**(209,602)**	**HKD57.6328**	**(93,046)**	**–**	**–**	**(302,648)**
At 31 March 2010	**USD0.1036**	**1,001,028**	**HKD11.9185**	**21,294,374**	**HKD48.0125**	**29,314,147**	**HKD158.5000**	**1,000,000**	**52,609,549**
Currently exercisable as at 31 March 2010	**USD0.1036**	**1,001,028**	**HKD10.1496**	**17,180,704**	**HKD42.2947**	**3,660,779**	**–**	**–**	**21,842,511**

During the three months ended 31 March 2010, 1,000,000 share options (for the three months ended 31 March 2009: Nil) were granted to an executive director of the Company.

(b) **Share award scheme**

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

Movements in the number of shares held for the Share Scheme and awarded shares for the three months ended 31 March 2010 and 2009 are as follows:

	Shares held for the Share Scheme	**Awarded shares**
At 1 January 2009	132,160	1,349,450
Purchased	148,500	–
Granted	(145,700)	145,700
Cancelled	(132,080)	–
At 31 March 2009	2,880	1,495,150
Currently exercisable as at 31 March 2009		–
At 1 January 2010	**10**	**10,411,424**
Purchased *(Note)*	**232,700**	**–**
Granted	**(232,700)**	**232,700**
Vested	**–**	**(48,235)**
At 31 March 2010	**10**	**10,595,889**
Currently exercisable as at 31 March 2010		**199,751**

Note:

During the three months ended 31 March 2010, the Group acquired 232,700 shares through an independent trustee at a consideration of approximately HKD37,395,000 (equivalent to approximately RMB32,891,000).

During the three months ended 31 March 2010, no awarded shares (during the three months ended 31 March 2009: Nil) were granted to any director of the Company.

5 Long-term payables

As at 31 December 2009, the long-term payables mainly represented the financial liability related to put options granted to minority interest owners for their equity interests ("Equity Interest") in Shenzhen Domain Computer Network Company Limited ("Shenzhen Domain") with an amount of RMB248,444,000.

In April 2010, the Group acquired the Equity Interest at a total consideration of RMB154,198,000. After this transaction, Shenzhen Domain became a wholly-owned subsidiary of the Company. Based on this subsequent event, the directors of the Company had revised the put option liabilities as at 31 March 2010 to RMB154,198,000, and classified them as other payables and accruals under current liabilities as at 31 March 2010 as they would be settled within twelve months from that date.

6 **Accounts payable**

	Unaudited 31 March 2010 *RMB'000*	Audited 31 December 2009 *RMB'000*
0 - 30 days	**606,824**	493,013
31 days - 60 days	**173,938**	72,554
61 days - 90 days	**44,440**	82,525
Over 90 days but less than a year	**112,158**	48,419
	937,360	696,511

7 **Other losses, net**

	Unaudited Three months ended 31 March	
	2010 *RMB'000*	2009 *RMB'000*
Government subsidies	**663**	3,541
Donation to a charity fund established by the Group	**(40,000)**	(30,000)
Others	**4,062**	(8,361)
	(35,275)	(34,820)

8 **Expenses by nature**

	Unaudited Three months ended 31 March	
	2010 *RMB'000*	2009 *RMB'000*
Employee benefits expenses *(Note)*	**645,048**	479,949
Mobile and telecommunications charges and bandwidth and server custody fees	**475,123**	356,225
Content costs and agency fees	**557,874**	223,830
Promotion and advertising expenses	**104,557**	45,913
Travelling and entertainment expenses	**22,136**	24,850
Depreciation of fixed assets *(Note)*	**134,831**	87,432
Amortisation of intangible assets	**32,911**	37,997
Operating lease rentals in respect of office buildings	**19,052**	24,479
Other expenses	**108,006**	58,362
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**2,099,538**	1,339,037

Note:

Research and development expenses were RMB351,276,000 for the three months ended 31 March 2010 (for the three months ended 31 March 2009: RMB271,273,000), which included employee benefits expenses of approximately RMB285,566,000 (for the three months ended 31 March 2009: RMB213,286,000) and fixed assets depreciation of approximately RMB48,669,000 (for the three months ended 31 March 2009: RMB53,081,000).

The Group did not capitalise any research and development expenses for the three months ended 31 March 2010 (for the three months ended 31 March 2009: Nil).

9 **Income tax expense**

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

(i) **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 2010 and 2009.

(ii) **Hong Kong Profits Tax**

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the three months ended 31 March 2010 and 2009.

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

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 ("New CIT Law"), the CIT for domestic and foreign enterprises has been unified at 25%, effective 1 January 2008. In addition, the New CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the date of promulgation of the New CIT Law and which were entitled to preferential income tax rates under the then effective tax laws or regulations.

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

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

According to a special tax incentive granted by the local tax authority in Beijing, Tencent Beijing is exempt from CIT for three years starting from the first year of its commercial operation, followed by a 50% reduction for the next three years. 2005 was its first year of operation and accordingly, CIT was provided at a rate of 7.5% for the three months ended 31 March 2010 (for the three months ended 31 March 2009: 7.5%).

As approved by the relevant local tax authority in Tianjin, Cyber Tianjin is exempt from CIT for two years commencing from the first year of its profitable operation after offsetting prior years' tax losses, followed by a 50% reduction for the next three years. 2008 was its first profit-making year and accordingly, CIT was provided at a rate of 12.5% for the three months ended 31 March 2010 (for the three months ended 31 March 2009: exempt from CIT).

In addition, Beijing Yonghang Technology Company Limited ("Beijing Yonghang") was recognised as a newly set-up software production enterprise in 2009, and according to the tax incentive granted by the tax authority, Beijing Yonghang was exempt from CIT in 2009, followed by a 50% reduction for the next three years. Accordingly, CIT was provided at a rate of 12.5% for the three months ended 31 March 2010 (for the three months ended 31 March 2009: exempt from CIT).

(iv) **PRC Withholding Tax**

Pursuant to the Detailed Implementation Regulations of the PRC Corporate Income Tax Law issued on 6 December 2007, a dividend distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 would be subject to a 10% withholding tax.

If a foreign investor is incorporated in Hong Kong and meets certain conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate could be reduced to 5% from 10%.

The income tax charges of the Group for the three months ended 31 March 2010 and 2009 are analysed as follows:

	Unaudited Three months ended 31 March	
	2010	2009
	RMB'000	*RMB'000*
PRC current tax	**309,975**	105,030
Deferred tax	**47,400**	11,537
	357,375	116,567

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 22% for the three months ended 31 March 2010 (for the three months ended 31 March 2009: 20%), the tax rates of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	Unaudited Three months ended 31 March	
	2010	2009
	RMB'000	*RMB'000*
Profit before income tax	**2,159,793**	1,170,177
Less: Share of profit of associates	**(12,913)**	(5,372)
	2,146,880	1,164,805
Tax calculated at a tax rate of 22% (for the three months ended 31 March 2009: 20%)	**472,314**	232,961
Effects of different tax rates available to different companies of the Group	**(103,811)**	(40,567)
Effects of tax holiday on assessable profits of subsidiaries	**(93,537)**	(106,208)
Expenses not deductible for tax purposes	**18,224**	10,932
Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries	**35,000**	–
Unrecognised deferred tax assets	**29,185**	19,449
Tax charge	**357,375**	116,567

10 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	
	2010	2009
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company for the period (RMB'000)	**1,783,194**	1,035,440
Weighted average number of ordinary shares in issue (thousand shares)	**1,811,882**	1,795,538
Basic EPS (RMB per share)	**0.984**	0.577

(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	
	2010	2009
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company for the period (RMB'000)	**1,783,194**	1,035,440
Weighted average number of ordinary shares in issue (thousand shares)	**1,811,882**	1,795,538
Adjustments for share options (thousand shares)	**40,615**	34,511
Adjustments for awarded shares (thousands shares)	**6,169**	169
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,858,666**	1,830,218
Diluted EPS (RMB per share)	**0.959**	0.566

11 **Dividends**

A final dividend in respect of the year ended 31 December 2009 of HKD0.40 per share (2008: HKD0.25 per share and a special dividend of HKD0.10 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2010 and is subject to the approval of shareholders in the annual general meeting to be held on 12 May 2010. Such proposed dividend has neither been shown as an appropriation nor reflected as dividend 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.

12 **Subsequent event**

On 12 April 2010, TCH Amur Limited ("TCH"), a wholly-owned subsidiary of the Company, and Digital Sky Technologies Limited ("DST") entered into a share subscription agreement, pursuant to which TCH agrees to subscribe for, and DST agrees to issue and allot to TCH, an aggregate of up to 8,114 ordinary shares of DST for a total cash consideration up to USD300,002,000.

DST was founded in 2005 and is one of the largest Internet companies in the Russian-speaking and Eastern European markets. It is also one of the leading global investment groups primarily focused on Internet-related companies, holding stakes in global Internet companies such as Facebook and Zynga.

Upon completion of the subscription of all 8,114 ordinary shares of DST, TCH would hold approximately 10.26% economic interest in DST and 0.51% of the total voting power of DST.

OPERATING INFORMATION

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

	As at 31 March 2010	As at 31 December 2009	Percentage change
	(in millions)		
Active user accounts of IM	**568.6**	522.9	8.7%
Peak simultaneous online user accounts of IM (for the quarter)	**105.3**	93.0	13.2%
Average daily user hours of IM (for the last 16 days of the quarter)	**1,546.7**	1,382.4	11.9%
Active user accounts of Qzone	**428.0**	387.8	10.4%
Peak simultaneous online user accounts of QQ Game (for the quarter)	**6.8**	6.2	9.7%
Fee-based Internet value-added services registered subscriptions	**59.9**	51.6	16.1%
Fee-based mobile and telecommunications value-added services registered subscriptions	**23.3**	20.3	14.8%

Our IM platform registered healthy growth in active users during the first quarter of 2010, reflecting the positive seasonal impact of the Chinese New Year holidays and winter break for students as well as the popularity of social networking service ("SNS"). User activity and engagement of our IM platform improved as the increase in peak simultaneous online user accounts and average daily user hours outperformed the growth of active users. Active user base of Qzone expanded during the quarter, driven by seasonality and SNS applications. Peak simultaneous online user accounts of QQ Game also increased as a result of in-game promotions during the quarter. For our Internet value-added services, the quarter saw significant increase in registered subscriptions primarily driven by the growth in Qzone, QQ Membership and QQ Show due to positive seasonality. Our mobile and telecommunications value-added services also registered increase in monthly subscriptions, driven by the growth in our bundled SMS packages mainly attributable to the enhanced privileges and features.

FINANCIAL PERFORMANCE HIGHLIGHTS

Unaudited consolidated revenues for the first quarter of 2010 were RMB4,226.1 million, an increase of 68.7% over the same period in 2009 and an increase of 14.6% from the fourth quarter of 2009.

Revenues from our Internet value-added services for the first quarter of 2010 were RMB3,387.4 million, an increase of 77.9% over the same period in 2009 and an increase of 19.0% from the fourth quarter of 2009.

Revenues from our mobile and telecommunications value-added services for the first quarter of 2010 were RMB618.2 million, an increase of 40.7% over the same period in 2009 and an increase of 12.4% from the fourth quarter of 2009.

Revenues from our online advertising business for the first quarter of 2010 were RMB204.3 million, an increase of 39.4% over the same period in 2009 and a decrease of 26.8% from the fourth quarter of 2009.

Cost of revenues for the first quarter of 2010 was RMB1,328.4 million, an increase of 69.0% over the same period in 2009 and an increase of 16.0% from the fourth quarter of 2009.

Selling and marketing expenses for the first quarter of 2010 were RMB185.4 million, an increase of 89.0% over the same period in 2009 and a decrease of 10.9% from the fourth quarter of 2009.

General and administrative expenses for the first quarter of 2010 were RMB585.8 million, an increase of 28.7% over the same period in 2009 and an increase of 2.2% from the fourth quarter of 2009.

Operating profit for the first quarter of 2010 was RMB2,148.4 million, representing an increase of 84.5% over the same period in 2009 and an increase of 20.9% from the fourth quarter of 2009. As a percentage of revenues, operating profit represented 50.8% for the first quarter of 2010, compared to 46.5% for the same period of 2009 and 48.2% for the fourth quarter of 2009.

Profit for the first quarter of 2010 was RMB1,802.4 million, representing an increase of 71.1% over the same period in 2009 and an increase of 17.6% from the fourth quarter of 2009. As a percentage of revenues, profit for the period represented 42.7% for the first quarter of 2010, compared to 42.1% for the same period of 2009 and 41.6% for the fourth quarter of 2009.

Profit attributable to equity holders of the Company for the first quarter of 2010 was RMB1,783.2 million, an increase of 72.2% over the same period in 2009 and an increase of 18.3% from the fourth quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2010 Compared to Fourth Quarter of 2009

The following table sets forth the comparative figures for the first quarter of 2010 and the fourth quarter of 2009:

	Unaudited Three months ended	
	31 March 2010	31 December 2009
	RMB'000	*RMB'000*
Revenues	**4,226,060**	3,688,264
Cost of revenues	**(1,328,355)**	(1,144,855)
Gross profit	**2,897,705**	2,543,409
Interest income	**57,191**	41,116
Other losses, net	**(35,275)**	(26,886)
Selling and marketing expenses	**(185,417)**	(208,105)
General and administrative expenses	**(585,766)**	(572,882)
Operating profit	**2,148,438**	1,776,652
Finance costs	**(1,558)**	(369)
Share of profit of associates	**12,913**	9,542
Profit before income tax	**2,159,793**	1,785,825
Income tax expense	**(357,375)**	(252,772)
Profit for the period/Total comprehensive income for the period	**1,802,418**	1,533,053
Attributable to:		
Equity holders of the Company	**1,783,194**	1,507,945
Minority interests	**19,224**	25,108
	1,802,418	1,533,053

Revenues. Revenues increased by 14.6% to RMB4,226.1 million for the first quarter of 2010 from RMB3,688.3 million for the fourth quarter of 2009. The following table sets forth our revenues by line of business for the first quarter of 2010 and the fourth quarter of 2009:

	Unaudited			
	Three months ended			
	31 March 2010		31 December 2009	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**3,387,377**	**80.2%**	2,847,055	77.2%
Mobile and telecommunications value-added services	**618,238**	**14.6%**	549,899	14.9%
Online advertising	**204,334**	**4.8%**	279,006	7.6%
Others	**16,111**	**0.4%**	12,304	0.3%
Total revenues	**4,226,060**	**100.0%**	3,688,264	100.0%

– Revenues from our Internet value-added services increased by 19.0% to RMB3,387.4 million for the first quarter of 2010 from RMB2,847.1 million for the fourth quarter of 2009. Revenues from our online games increased by 30.1% to RMB2,023.6 million. This primarily reflected the positive seasonal impact of the Chinese New Year holidays and winter break for students, which resulted in the increased monetisation of our major advanced casual games and MMOGs, namely Cross Fire, Dungeon and Fighter ("DNF"), QQ Dancer and QQ Speed. The growth of QQ Game also contributed to the increase in online gaming revenues. For our community value-added services, revenues increased by 5.6% to RMB1,363.8 million. Subscriber of QQ Membership increased as we focused on enhancing user value and stickiness by enriching the online and offline privileges of the product. Growth in Qzone was mainly due to increased user activeness driven by our SNS applications. Revenues from QQ Show also increased as we launched programmes to attract new subscribers and continued to improve user loyalty with enhanced features as well as annual subscription package.

- Revenues from our mobile and telecommunications value-added services increased by 12.4% to RMB618.2 million for the first quarter of 2010 from RMB549.9 million for the fourth quarter of 2009. This was primarily driven by the growth in the user base of our bundled SMS packages resulting from enhanced privileges and features. Revenues from mobile SNS applications and mobile games also increased. The increase in revenues was partly offset by the reduction in revenues from our WAP business due to the suspension of billing for WAP services by China Mobile since 30 November 2009. Revenues from legacy mobile voice value-added services also declined.

- Revenues from our online advertising business decreased by 26.8% to RMB204.3 million for the first quarter of 2010 from RMB279.0 million for the fourth quarter of 2009. This primarily reflected weaker seasonality in the first quarter as advertising activities reduced around the Chinese New Year holidays.

Cost of revenues. Cost of revenues increased by 16.0% to RMB1,328.4 million for the first quarter of 2010 from RMB1,144.9 million for the fourth quarter of 2009. This mainly reflected the increase in sharing costs, staff costs, equipment depreciation and telecommunications operators' revenue share. As a percentage of revenues, cost of revenues increased slightly to 31.4% for the first quarter of 2010 from 31.0% for the fourth quarter of 2009. The following table sets forth our cost of revenues by line of business for the first quarter of 2010 and the fourth quarter of 2009:

	Unaudited Three months ended			
	31 March 2010		31 December 2009	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,012,928**	**29.9%**	834,649	29.3%
Mobile and telecommunications value-added services	**221,346**	**35.8%**	206,629	37.6%
Online advertising	**70,943**	**34.7%**	83,795	30.0%
Others	**23,138**	**143.6%**	19,782	160.8%
Total cost of revenues	**1,328,355**		1,144,855	

- Cost of revenues for our Internet value-added services increased by 21.4% to RMB1,012.9 million for the first quarter of 2010 from RMB834.6 million for the fourth quarter of 2009. This primarily reflected the increase in sharing costs as a result of the growth in revenues from our licensed games. Other costs, including equipment depreciation, staff costs and bandwidth and server custody fees, also increased as our business expanded.

- Cost of revenues for our mobile and telecommunications value-added services increased by 7.1% to RMB221.3 million for the first quarter of 2010 from RMB206.6 million for the fourth quarter of 2009. This was mainly driven by higher telecommunications operators' revenue share due to the growth in revenues as well as increased staff costs.

- Cost of revenues for our online advertising business decreased by 15.3% to RMB70.9 million for the first quarter of 2010 from RMB83.8 million for the fourth quarter of 2009. This was mainly driven by the decline in revenues.

Interest income. Interest income increased by 39.1% to RMB57.2 million for the first quarter of 2010 from RMB41.1 million for the fourth quarter of 2009. This was primarily driven by the increased amount of cash and term deposits.

Other losses, net. Other losses, net increased by 31.2% to RMB35.3 million for the first quarter of 2010 from RMB26.9 million for the fourth quarter of 2009. This mainly reflected the increase in donations made to the Tencent Charity Fund from RMB30.0 million for the fourth quarter of 2009 to RMB40.0 million for the first quarter of 2010 as well as the reduction in government subsidies. The increase was partly offset by higher gains on structured transactions comprising bank borrowings secured by restricted cash and foreign exchange forward contracts. For each of these transactions, the total profit to be recognised over contract life was locked in on the date of commencement. The increase was also partly offset by the recognition of dividend income from one of our investees.

Selling and marketing expenses. Selling and marketing expenses decreased by 10.9% to RMB185.4 million for the first quarter of 2010 from RMB208.1 million for the fourth quarter of 2009. This mainly reflected the decrease in spending on brand promotion and advertising during the quarter which is typically a less active season for advertising activities. As a percentage of revenues, selling and marketing expenses decreased to 4.4% for the first quarter of 2010 from 5.6% for the fourth quarter of 2009.

General and administrative expenses. General and administrative expenses increased by 2.2% to RMB585.8 million for the first quarter of 2010 from RMB572.9 million for the fourth quarter of 2009. This primarily reflected the increase in spending on research and development for supporting the long-term growth of our business. As a percentage of revenues, general and administrative expenses decreased to 13.9% for the first quarter of 2010 from 15.5% for the fourth quarter of 2009.

Income tax expense. Income tax expense increased by 41.4% to RMB357.4 million for the first quarter of 2010 from RMB252.8 million for the fourth quarter of 2009. The increase primarily reflected higher profit before tax and the impact of the reversal of income tax expenses in the fourth quarter of 2009 as certain subsidiaries were qualified to enjoy lower tax rates. It also reflected higher tax rates for certain subsidiaries in the first quarter of 2010. The increase was partially offset by the 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.

Profit for the period. Profit for the period increased by 17.6% to RMB1,802.4 million for the first quarter of 2010 from RMB1,533.1 million for the fourth quarter of 2009. Net margin was 42.7% for the first quarter of 2010 compared to 41.6% for the fourth quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 18.3% to RMB1,783.2 million for the first quarter of 2010 from RMB1,507.9 million for the fourth quarter of 2009.

First Quarter of 2010 Compared to First Quarter of 2009

The following table sets forth the comparative figures for the first quarter of 2010 and the first quarter of 2009:

	Unaudited	
	Three months ended	
	31 March	31 March
	2010	2009
	RMB'000	*RMB'000*
Revenues	**4,226,060**	2,504,365
Cost of revenues	**(1,328,355)**	(785,914)
Gross profit	**2,897,705**	1,718,451
Interest income	**57,191**	34,049
Other losses, net	**(35,275)**	(34,820)
Selling and marketing expenses	**(185,417)**	(98,105)
General and administrative expenses	**(585,766)**	(455,018)
Operating profit	**2,148,438**	1,164,557
Finance (costs)/income	**(1,558)**	248
Share of profit of associates	**12,913**	5,372
Profit before income tax	**2,159,793**	1,170,177
Income tax expense	**(357,375)**	(116,567)
Profit for the period/Total comprehensive income for the period	**1,802,418**	1,053,610
Attributable to:		
Equity holders of the Company	**1,783,194**	1,035,440
Minority interests	**19,224**	18,170
	1,802,418	1,053,610

Revenues. Revenues increased by 68.7% to RMB4,226.1 million for the first quarter of 2010 from RMB2,504.4 million for the first quarter of 2009. The following table sets forth our revenues by line of business for the first quarter of 2010 and the first quarter of 2009:

	Unaudited Three months ended			
	31 March 2010		31 March 2009	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**3,387,377**	**80.2%**	1,904,563	76.0%
Mobile and telecommunications value-added services	**618,238**	**14.6%**	439,545	17.6%
Online advertising	**204,334**	**4.8%**	146,563	5.9%
Others	**16,111**	**0.4%**	13,694	0.5%
Total revenues	**4,226,060**	**100.0%**	2,504,365	100.0%

– Revenues from our Internet value-added services increased by 77.9% to RMB3,387.4 million for the first quarter of 2010 from RMB1,904.6 million for the first quarter of 2009. Revenues from our online games increased by 90.8% to RMB2,023.6 million, primarily driven by the strong performance of our major advanced casual games and MMOGs as well as the growth of QQ Game. The increase was partially offset by the decline in revenues from more mature MMOGs. Revenues from our community value-added services increased by 61.6% to RMB1,363.8 million. Qzone experienced significant increase in revenues as SNS applications enhanced user activity and engagement and stimulated the growth of monthly subscription. Revenues from QQ Membership grew as its user base expanded, riding on improved user loyalty and stickiness due to the enhancements in value-added functions as well as online and offline privileges. The increase in revenues from QQ Show was attributable to the growth in monthly subscription as we focused on enhancing the features and user experience of the product.

– Revenues from our mobile and telecommunications value-added services increased by 40.7% to RMB618.2 million for the first quarter of 2010 from RMB439.5 million for the first quarter of 2009. The increase was mainly attributable to the growth in revenues from our bundled SMS packages as we added more privileges and features and enhanced the user experience of our services. It also reflected growth in revenues from mobile SNS applications, mobile music and mobile games. The increase was partly offset by the decline in revenues from legacy mobile voice value-added services as well as the suspension of billing for WAP services by China Mobile since 30 November 2009.

– Revenues from our online advertising business increased by 39.4% to RMB204.3 million for the first quarter of 2010 from RMB146.6 million for the first quarter of 2009. The increase mainly reflected the enhanced market recognition of the strengths of our Internet platforms among advertisers. In addition, revenues for the first quarter of 2009 were affected by the impact of the global economic slowdown on advertising spending. The increase was partially offset by the decrease in revenues from search-based advertising as we transitioned into our self-developed search engine.

Cost of revenues. Cost of revenues increased by 69.0% to RMB1,328.4 million for the first quarter of 2010 from RMB785.9 million for the first quarter of 2009. This primarily reflected increase in sharing costs, telecommunications operators' revenue share, equipment depreciation, staff costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues remained stable at 31.4% for the first quarter of 2010 compared to the first quarter of 2009. The following table sets forth our cost of revenues by line of business for the first quarter of 2010 and the first quarter of 2009:

	Unaudited Three months ended			
	31 March 2010		31 March 2009	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in thousands, except percentages)			
Internet value-added services	**1,012,928**	**29.9%**	544,624	28.6%
Mobile and telecommunications value-added services	**221,346**	**35.8%**	169,060	38.5%
Online advertising	**70,943**	**34.7%**	52,001	35.5%
Others	**23,138**	**143.6%**	20,229	147.7%
Total cost of revenues	**1,328,355**		785,914	

- Cost of revenues for our Internet value-added services increased by 86.0% to RMB1,012.9 million for the first quarter of 2010 from RMB544.6 million for the first quarter of 2009. This mainly reflected the growth in sharing costs due to increased revenues from our licensed games, including DNF and Cross Fire. Other costs, including equipment depreciation, bandwidth and server custody fees and telecommunications operators' revenue share, also increased as our business expanded.

- Cost of revenues for our mobile and telecommunications value-added services increased by 30.9% to RMB221.3 million for the first quarter of 2010 from RMB169.1 million for the first quarter of 2009. This was primarily driven by the increase in telecommunications operators' revenue share and staff costs.

- Cost of revenues for our online advertising business increased by 36.4% to RMB70.9 million for the first quarter of 2010 from RMB52.0 million for the first quarter of 2009. This primarily reflected the increase in sales commissions paid to advertising agencies and staff costs as our business expanded.

Interest income. Interest income increased by 68.0% to RMB57.2 million for the first quarter of 2010 from RMB34.0 million for the first quarter of 2009. This was primarily due to the growth in cash and term deposits.

Other losses, net. Other losses, net increased by 1.3% to RMB35.3 million for the first quarter of 2010 from RMB34.8 million for the first quarter of 2009. The increase mainly reflected the growth in donations made to the Tencent Charity Fund from RMB30.0 million for the first quarter of 2009 to RMB40.0 million for the first quarter of 2010 as well as the reduction in government subsidies. This was partially offset by higher gains on structured transactions comprising bank borrowings secured by restricted cash and foreign exchange forward contracts. For each of these transactions, the total profit to be recognised over contract life was locked in on the date of commencement. The increase was also partly offset by the recognition of dividend income from one of our investees.

Selling and marketing expenses. Selling and marketing expenses increased by 89.0% to RMB185.4 million for the first quarter of 2010 from RMB98.1 million for the first quarter of 2009. This was primarily driven by the increase in advertising and promotion expenses related to our corporate branding campaign and the promotion of our online games. Staff costs also increased due to our business expansion. As a percentage of revenues, selling and marketing expenses increased to 4.4% for the first quarter of 2010 from 3.9% for the first quarter of 2009.

General and administrative expenses. General and administrative expenses increased by 28.7% to RMB585.8 million for the first quarter of 2010 from RMB455.0 million for the first quarter of 2009. This mainly reflected the increase in research and development expenses as a result of the expansion of our research and development effort. This also reflected higher staff costs due to the growth of our business and the increase in our compensation level for rewarding and attracting talents. As a percentage of revenues, general and administrative expenses decreased to 13.9% for the first quarter of 2010 from 18.2% for the first quarter of 2009.

Income tax expense. We recorded income tax expense of RMB357.4 million for the first quarter of 2010 compared to RMB116.6 million for the first quarter of 2009. The change primarily reflected the growth in profit before tax as well as the increase 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. It also reflected higher tax rates for certain subsidiaries.

Profit for the period. Profit for the period increased by 71.1% to RMB1,802.4 million for the first quarter of 2010 from RMB1,053.6 million for the first quarter of 2009. Net margin was 42.7% for the first quarter of 2010 compared to 42.1% for the first quarter of 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 72.2% to RMB1,783.2 million for the first quarter of 2010 from RMB1,035.4 million for the first quarter of 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2010 and 31 December 2009, we had the following major financial resources in the form of cash and investments:

	Unaudited 31 March 2010 *RMB'000*	Audited 31 December 2009 *RMB'000*
Cash and cash equivalents	**6,795,966**	6,043,696
Term deposits with initial term of over three months	**6,673,010**	5,310,168
Held-to-maturity investments	**341,315**	341,410
Total	**13,810,291**	11,695,274

Note: The above table excludes RMB1,008.2 million of restricted deposits pledged as part of a USD147.6 million short-term bank borrowing arrangement, as such deposits are scheduled to offset the borrowed amount at the maturity of the loan.

As at 31 March 2010, RMB1,789.1 million of our financial assets were held in deposits and investments denominated in non-Renminbi currencies. Since there are no cost-effective hedges against the fluctuation of Renminbi and no effective manner to generally convert a significant amount of non-Renminbi currencies into Renminbi, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

We had no other interest-bearing borrowings as at 31 March 2010.

BUSINESS REVIEW AND OUTLOOK

We delivered solid financial and operating performance in the first quarter of 2010 on the back of strong seasonality and the continued growth of our platforms. Our Internet value-added services ("IVAS"), especially for online games, benefited from the Chinese New Year holidays and winter break for students, when users' propensity to spend increased. Our mobile and telecommunications value-added services ("MVAS") registered growth during the quarter, primarily driven by the increase in subscription to our bundled SMS packages as we enriched the privileges and features. For our online advertising business, revenues decreased on a quarter-on-quarter basis as the first quarter was traditionally a weak season. Looking into the second quarter of 2010, we expect weaker seasonality for our IVAS due to fewer school holidays during the quarter and school examinations towards the end of the quarter. Visibility of our MVAS business would remain low as the industry continues to face significant regulatory uncertainties. On the other hand, our online advertising business should benefit from stronger seasonality in the second quarter.

In April 2010, we announced a USD300 million investment in DST, one of the largest Internet companies in the Russian-speaking and Eastern European markets, and the establishment of a long-term strategic partnership between DST and Tencent. This transaction represents a step for us to tap into the potential of the fast-growing Internet market in Russia. It also aligns with our long-term strategy of cooperating with top local Internet companies in emerging markets through strategic investment and partnership, and leveraging our technical and operational know-how to deliver quality Internet products and services to users in these markets.

IM Platform

Our IM platform continued to expand during the quarter, with active users and peak concurrent users ("PCU") increasing to 568.6 million and 105.3 million respectively. This was primarily driven by positive seasonality and the popularity of SNS applications, which enhanced user activity and engagement through cross-platform integration. The increasing usage of our IM services on mobile devices also contributed to the growth. To extend our leadership in the market, we are broadening and deepening the integration of our IM services with other platforms of Tencent. We are also enhancing our services for different user segments with tailored functionalities and features.

QQ.com

The traffic on QQ.com increased during the quarter as we enriched the content of our key vertical channels and fostered stronger cross-platform integration. We also continued to execute our brand TV advertising campaign to further improve our brand image and awareness. In the second quarter and third quarter of 2010, we will increase our investments in content as well as advertising and promotion activities to leverage the 2010 World Exposition in Shanghai and the World Cup to enhance our media influence and standing in the industry. As part of this strategy, we have just acquired the right from China Network Television to provide World Cup video clips to our users.

Internet value-added services

For community value-added services, QQ Membership registered healthy growth in user base on the back of enhanced user loyalty and stickiness mainly driven by the bundling of more value-added functions as well as online and offline lifestyle privileges. Benefiting from the popularity of SNS applications, Qzone's active user accounts increased by 10.4% on a quarter-on-quarter basis to reach 428.0 million at the end of the first quarter. As we saw the growth of our most popular SNS game, QQ Farm, approaching saturation because of its high penetration, we increased the promotion of QQ Ranch, a social game closely related and integrated with QQ Farm, to provide more content to our users. We are also launching new self-developed and third-party applications on Qzone and Xiaoyou on trial basis during the first quarter as we recognise the life cycle of individual social game tends to be short. Going forward, we will continue to enhance the user value of our SNS platforms by improving the basic social networking functionalities as well as introducing different SNS applications that cater to the varying needs of our user base. We are also increasing our effort to extend Qzone to our wireless platforms to further enhance its reach and usage. For QQ Show, monthly subscription grew during the quarter as we introduced free trial and enhanced free items to attract new users and converted some of these users into paid subscribers. User stickiness also improved, with enhanced features as well as introduction of annual subscription package.

Our online game business benefited from positive seasonality as well as the launch of expansion packs and holiday promotions for our major advanced casual games and MMOGs. QQ Game also benefited from in-game promotions, with its PCU reaching 6.8 million. During the quarter, we launched Dragon Power, a hardcore 2D MMOG, and A.V.A., a niche market First Person Shooting game, to further enrich our diversified game portfolio. We are also working on the launch of additional MMOGs for the rest of 2010. We believe that as the online game industry begins to mature, the operating environment for online game companies would become more challenging going forward. On the one hand, gamers are now more sophisticated in choosing online games, raising the bar on the quality of successful games. On the other hand, competition for licensed games and talent has increased as there are many well-funded gaming companies in the market. These factors would decrease the success rate and extent of success for new games, as well as increase investment requirements. Against this backdrop, we will have to work even harder on leveraging our platforms and operational experience to introduce high quality games to different market segments via self-development, licensing and investments. Our recent acquisition of the remaining 40% stake in Shenzhen Domain, which will allow us to better integrate and leverage the development resources of the company, is in line with this strategy.

Mobile and telecommunications value-added services

Our MVAS business grew during the quarter primarily driven by the expansion in the user base of our bundled SMS packages as we added more privileges and features to the packages. Traffic on our WAP portal continued to increase, reinforcing our leading position in the free WAP portal industry. The growth of our MVAS business was dampened by the suspension of billing for WAP services by China Mobile since 30 November 2009 and the decline in legacy mobile voice value-added services. Visibility of the industry would remain low as the sector is still subject to significant regulatory uncertainties.

Online advertising

Our online advertising business was affected by weaker seasonality in the first quarter of 2010 as advertising activities generally reduced around the Chinese New Year holidays. During the quarter, we continued to develop cross-platform and user-targeted advertising solutions to deepen our differentiation in the market. Looking ahead, we are positioning ourselves for long-term growth by enhancing our image as a mainstream and influential media, strengthening our sales organisation and further improving our advertising products to capitalise on the strengths of our platforms.

OTHER INFORMATION

Employee and Remuneration Policies

As at 31 March 2010, the Group had 7,845 employees (31 March 2009: 6,123), 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 31 March 2010 was RMB 645.5 million (for the three months ended 31 March 2009: RMB 481.8 million).

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2010.

Audit Committee

The Audit Committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three months ended 31 March 2010.

Compliance with the Code on Corporate Governance Practices

Save as disclosed in the 2009 annual report of the Company which was the position as at 31 December 2009, 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 2010, 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, 12 May 2010

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

Executive Directors:
Ma Huateng, Lau Chi Ping Martin and Zhang Zhidong;

Non-Executive Directors:
Antonie Andries Roux and Charles St Leger Searle; and

Independent Non-Executive Directors:
Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.

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