

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

Tencent 腾讯
TENCENT HOLDINGS LIMITED
騰訊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 700)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 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 and six months ended 30 June 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 30 JUNE 2009

	Unaudited	Audited
	30 June	31 December
	2009	2008
<i>Note</i>	RMB'000	RMB'000
ASSETS		
Non-current assets		
Fixed assets	1,703,614	1,165,048
Construction in progress	554,982	875,897
Investment properties	32,034	64,981
Leasehold land and land use rights	35,671	36,046
Intangible assets	316,682	370,314
Investment in associates	324,429	302,712
Deferred income tax assets	302,599	334,164
Held-to-maturity investments	341,595	—
Available-for-sale financial assets	89,087	86,180
Prepayments, deposits and other receivables	93,129	124,354
	<u>3,793,822</u>	<u>3,359,696</u>
Current assets		
Inventories	1,378	5,483
Accounts receivable	1,194,668	983,459
Prepayments, deposits and other receivables	410,800	378,340
Financial assets held for trading	—	329,804
Held-to-maturity investments	—	68,346
Term deposits with initial term of over three months	3,380,260	1,662,501
Cash and cash equivalents	4,061,022	3,067,928
	<u>9,048,128</u>	<u>6,495,861</u>
Total assets	<u>12,841,950</u>	<u>9,855,557</u>

	Unaudited	Audited
	30 June	31 December
	2009	2008
<i>Note</i>	RMB'000	RMB'000
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	196	195
Share premium	1,163,452	1,155,209
Shares held for share award scheme	(46,232)	(21,809)
Share-based compensation reserve	485,139	381,439
Other reserves	(431,621)	(433,038)
Retained earnings	<u>7,610,759</u>	<u>5,938,930</u>
	8,781,693	7,020,926
Minority interests in equity	<u>102,894</u>	<u>98,406</u>
Total equity	<u>8,884,587</u>	<u>7,119,332</u>
LIABILITIES		
Non-current liabilities		
Deferred income tax liabilities	73,365	78,368
Long-term payables	<u>553,429</u>	<u>566,260</u>
	<u>626,794</u>	<u>644,628</u>
Current liabilities		
Accounts payable	5 637,101	244,647
Other payables and accruals	1,115,966	1,013,542
Current income tax liabilities	148,274	47,307
Other tax liabilities	112,566	103,933
Deferred revenue	<u>1,316,662</u>	<u>682,168</u>
	<u>3,330,569</u>	<u>2,091,597</u>
Total liabilities	<u>3,957,363</u>	<u>2,736,225</u>
Total equity and liabilities	<u>12,841,950</u>	<u>9,855,557</u>
Net current assets	<u>5,717,559</u>	<u>4,404,264</u>
Total assets less current liabilities	<u>9,511,381</u>	<u>7,763,960</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2009**

		Unaudited		Unaudited	
		Three months ended		Six months ended	
		30 June		30 June	
		2009	2008	2009	2008
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues					
	Internet value-added services	2,156,468	1,037,042	4,061,031	2,035,775
	Mobile and telecommunications value-added services	470,003	338,311	909,548	626,602
	Online advertising	243,044	222,790	389,607	367,370
	Others	<u>8,908</u>	<u>1,635</u>	<u>22,602</u>	<u>2,942</u>
		2,878,423	1,599,778	5,382,788	3,032,689
	Cost of revenues	7 <u>(934,613)</u>	<u>(453,069)</u>	7 <u>(1,720,527)</u>	<u>(841,534)</u>
	Gross profit	1,943,810	1,146,709	3,662,261	2,191,155
	Other gains, net	6 25,328	25,855	24,557	73,303
	Selling and marketing expenses	7 (114,587)	(100,212)	(212,692)	(186,146)
	General and administrative expenses	7 <u>(455,629)</u>	<u>(307,059)</u>	<u>(910,647)</u>	<u>(575,701)</u>
	Operating profit	* 1,398,922	765,293	2,563,479	1,502,611
	Finance costs	** (653)	(40,918)	(405)	(135,384)
	Share of profit/(losses) of associates	<u>3,452</u>	<u>(1,558)</u>	<u>8,824</u>	<u>(1,558)</u>
	Profit before income tax	1,401,721	722,817	2,571,898	1,365,669
	Income tax expense	8 <u>(199,973)</u>	<u>(70,618)</u>	<u>(316,540)</u>	<u>(171,458)</u>
	Profit/total comprehensive income for the period	<u>1,201,748</u>	<u>652,199</u>	<u>2,255,358</u>	<u>1,194,211</u>

	<i>Note</i>	Unaudited		Unaudited	
		Three months ended		Six months ended	
		30 June		30 June	
		2009	2008	2009	2008
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:					
Equity holders of the Company		1,192,410	643,979	2,227,850	1,178,357
Minority interests		9,338	8,220	27,508	15,854
		<u>1,201,748</u>	<u>652,199</u>	<u>2,255,358</u>	<u>1,194,211</u>
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)					
- basic	9	<u>0.662</u>	<u>0.359</u>	<u>1.239</u>	<u>0.657</u>
- diluted	9	<u>0.647</u>	<u>0.349</u>	<u>1.213</u>	<u>0.639</u>

* After deduction of share-based compensation charge amounting to RMB53,904,000 for the three months ended 30 June 2009 (for the three months ended 30 June 2008: RMB32,061,000) and RMB103,238,000 for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB67,493,000).

** Included foreign exchange losses of RMB653,000 for the three months ended 30 June 2009 (for the three months ended 30 June 2008: RMB40,918,000) and RMB405,000 for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB135,384,000).

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Shares held for share award scheme <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
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	-	-	-	-	-	2,227,850	2,227,850	27,508	2,255,358
Employee share option schemes:									
- value of employee services	-	-	-	86,674	-	-	86,674	-	86,674
- proceeds from shares issued	1	82,813	-	-	-	-	82,814	-	82,814
Employee share award scheme:									
- value of employee services	-	-	-	17,026	-	-	17,026	-	17,026
- shares purchased for share award scheme	-	-	(24,423)	-	-	-	(24,423)	-	(24,423)
Repurchase and cancellation of shares	-	(74,570)	-	-	-	-	(74,570)	-	(74,570)
Profit appropriations to statutory reserves	-	-	-	-	1,417	(1,417)	-	-	-
Dividend relating to 2008	-	-	-	-	-	(554,604)	(554,604)	(23,020)	(577,624)
Balance at 30 June 2009	196	1,163,452	(46,232)	485,139	(431,621)	7,610,759	8,781,693	102,894	8,884,587
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	-	-	-	-	-	1,178,357	1,178,357	15,854	1,194,211
Employee share option schemes:									
- value of employee services	-	-	-	67,277	-	-	67,277	-	67,277
- proceeds from shares issued	1	51,558	-	-	-	-	51,559	-	51,559
Employee share award scheme:									
- value of employee services	-	-	-	464	-	-	464	-	464
- shares purchased for share award scheme	-	-	(10,218)	-	-	-	(10,218)	-	(10,218)
Repurchase and cancellation of shares	-	(105,126)	-	-	-	-	(105,126)	-	(105,126)
Dividend relating to 2007	-	-	-	-	-	(257,803)	(257,803)	-	(257,803)
Other movement	-	-	-	-	-	-	-	172	172
Balance at 30 June 2008	195	1,402,286	(10,218)	287,971	93,712	4,334,377	6,108,323	107,656	6,215,979

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

	Unaudited	
	Six months ended	
	30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	3,531,851	1,045,053
Net cash flows used in investing activities	(1,944,788)	(1,333,843)
Net cash flows used in financing activities	<u>(593,803)</u>	<u>(321,588)</u>
Net increase/(decrease) in cash and cash equivalents	993,260	(610,378)
Cash and cash equivalents at beginning of period	3,067,928	2,948,757
Exchange losses on cash and cash equivalents	<u>(166)</u>	<u>(74,961)</u>
Cash and cash equivalents at end of period	<u>4,061,022</u>	<u>2,263,418</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	1,742,385	1,331,143
Short-term highly liquid investments with initial term of three months or less	<u>2,318,637</u>	<u>932,275</u>
	<u>4,061,022</u>	<u>2,263,418</u>

Notes:

1 General information, basis of preparation and presentation

The Company was incorporated in the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange 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 30 June 2009, the related consolidated statement of comprehensive income for the three and six months then ended, and the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six 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 is 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.

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

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

The Group has applied the IAS 1 (Revised), the IFRS 2 (Amendment) and the IFRS 8 and management considers they do not have a significant impact on the Interim Financial Information. Amendment to IFRS 7 is not relevant to the preparation of Interim Financial Information. The current accounting treatment adopted by the Group for customer loyalty programs complies with the requirements of IFRIC 13.

2 Segment information

The Group has three reportable segments for the three and six months ended 30 June 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 and six months ended 30 June 2009 and 2008.

The reportable segment revenues and segment gross profit/(loss) for the three and six months ended 30 June 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 30 June 2009				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues					
(revenues from external customers)	<u>2,156,468</u>	<u>470,003</u>	<u>243,044</u>	<u>8,908</u>	<u>2,878,423</u>
Gross profit/(loss)	<u>1,491,313</u>	<u>290,422</u>	<u>169,621</u>	<u>(7,546)</u>	1,943,810
Other gains, net					25,328
Selling and marketing expenses					(114,587)
General and administrative expenses					<u>(455,629)</u>
Operating profit					1,398,922
Finance costs					(653)
Share of profit of associates					<u>3,452</u>
Profit before income tax					<u>1,401,721</u>

	Unaudited				
	Three months ended 30 June 2008				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues					
(revenues from external customers)	<u>1,037,042</u>	<u>338,311</u>	<u>222,790</u>	<u>1,635</u>	<u>1,599,778</u>
Gross profit/(loss)	<u>767,798</u>	<u>220,550</u>	<u>169,134</u>	<u>(10,773)</u>	1,146,709
Other gains, net					25,855
Selling and marketing expenses					(100,212)
General and administrative expenses					<u>(307,059)</u>
Operating profit					765,293
Finance costs					(40,918)
Share of losses of associates					<u>(1,558)</u>
Profit before income tax					<u>722,817</u>

	Unaudited Six months ended 30 June 2009				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>4,061,031</u>	<u>909,548</u>	<u>389,607</u>	<u>22,602</u>	<u>5,382,788</u>
Gross profit/(loss)	<u>2,851,252</u>	<u>560,907</u>	<u>264,183</u>	<u>(14,081)</u>	3,662,261
Other gains, net					24,557
Selling and marketing expenses					(212,692)
General and administrative expenses					<u>(910,647)</u>
Operating profit					2,563,479
Finance costs					(405)
Share of profit of associates					<u>8,824</u>
Profit before income tax					<u>2,571,898</u>

	Unaudited Six months ended 30 June 2008				
	Internet value-added services <i>RMB'000</i>	Mobile and telecommunications value-added services <i>RMB'000</i>	Online advertising <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenues (revenues from external customers)	<u>2,035,775</u>	<u>626,602</u>	<u>367,370</u>	<u>2,942</u>	<u>3,032,689</u>
Gross profit/(loss)	<u>1,531,989</u>	<u>404,882</u>	<u>274,223</u>	<u>(19,939)</u>	2,191,155
Other gains, net					73,303
Selling and marketing expenses					(186,146)
General and administrative expenses					<u>(575,701)</u>
Operating profit					1,502,611
Finance costs					(135,384)
Share of losses of associates					<u>(1,558)</u>
Profit before income tax					<u>1,365,669</u>

3 Accounts receivable

	Unaudited	Audited
	30 June	31 December
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	747,284	550,813
31 days - 60 days	118,750	172,461
61 days - 90 days	93,348	67,593
Over 90 days but less than a year	<u>235,286</u>	<u>192,592</u>
	<u>1,194,668</u>	<u>983,459</u>

The receivable balances as at 30 June 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 the Pre-IPO Option Scheme had been granted.

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

On 24 March 2004, the Company adopted the Post-IPO Option Scheme I. The Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Share Option Scheme II 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.

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

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. The Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption. No share options had been granted under the Post-IPO Option Scheme III since its adoption to 30 June 2009.

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	–	–	–	–	HKD48.2972	7,288,977	7,288,977
Exercised	USD0.1046	(4,027,362)	HKD7.4123	(6,838,989)	HKD31.7500	(81,840)	(10,948,191)
Lapsed	–	–	HKD7.9551	(724,312)	HKD48.8305	(1,811,492)	(2,535,804)
At 30 June 2008	USD0.1033	<u>4,721,500</u>	HKD10.2298	<u>42,632,781</u>	HKD36.2249	<u>22,831,321</u>	<u>70,185,602</u>
Currently exercisable as at 30 June 2008	USD0.0891	<u>4,247,227</u>	HKD8.8246	<u>11,242,971</u>	HKD31.8252	<u>605,688</u>	<u>16,095,886</u>
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	USD0.1435	(1,375,675)	HKD8.1223	(7,860,636)	HKD37.0514	(771,474)	(10,007,785)
Lapsed	USD0.0497	<u>(254,080)</u>	HKD8.8487	<u>(329,029)</u>	HKD48.3206	<u>(346,393)</u>	<u>(929,502)</u>
At 30 June 2009	USD0.0752	<u>2,494,328</u>	HKD11.1232	<u>29,425,871</u>	HKD41.3526	<u>27,977,639</u>	<u>59,897,838</u>
Currently exercisable as at 30 June 2009	USD0.0752	<u>2,494,328</u>	HKD9.4056	<u>14,952,621</u>	HKD37.0696	<u>2,504,950</u>	<u>19,951,899</u>

During the six months ended 30 June 2009, no share options (for the six months ended 30 June 2008: Nil) were granted to any director of the Company.

(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 person to participate in the Share Scheme.

Movements in the number of awarded shares for the six months ended 30 June 2009 and 2008 are as follows:

	Awarded shares		
	Shares acquired for the Share Scheme	Shares allotted for the Share Scheme	Total
At 1 January 2008	—	—	—
Granted	195,760	—	195,760
Vested	—	—	—
Lapsed	—	—	—
At 30 June 2008	<u>195,760</u>	<u>—</u>	<u>195,760</u>
At 1 January 2009	465,480	883,970	1,349,450
Granted	145,700	—	145,700
Vested	—	—	—
Lapsed	—	—	—
At 30 June 2009	<u>611,180</u>	<u>883,970</u>	<u>1,495,150</u>

During the six months ended 30 June 2009, no awarded shares (the six months ended 30 June 2008: Nil) were granted to any director of the Company.

5 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	517,988	202,237
31 days - 60 days	11,560	25,225
61 days - 90 days	52,481	1,269
Over 90 days but less than a year	<u>55,072</u>	<u>15,916</u>
	<u>637,101</u>	<u>244,647</u>

6 Other gains, net

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	27,520	22,066	61,569	47,300
Fair value gains/(losses) on financial assets held for trading	11,929	(942)	11,929	4,641
Government subsidies	17,039	25,680	20,580	39,780
Donation to a charity fund established by the Group	(25,000)	(20,000)	(55,000)	(20,000)
Others	<u>(6,160)</u>	<u>(949)</u>	<u>(14,521)</u>	<u>1,582</u>
	<u>25,328</u>	<u>25,855</u>	<u>24,557</u>	<u>73,303</u>

7 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (Note)	467,386	326,228	947,335	591,204
Mobile and telecom charges and bandwidth and server custody fees	395,204	252,057	751,429	478,736
Content costs and agency fees	349,689	73,227	573,519	136,199
Depreciation of fixed assets (Note)	94,003	59,996	181,435	113,268
Promotion and advertising expenses	49,730	43,147	95,643	75,288
Travelling and entertainment expenses	26,559	16,106	51,409	35,886
Operating lease rentals in respect of office buildings	24,335	21,441	48,814	43,921
Amortisation of intangible assets	31,196	18,267	69,193	29,972
Other expenses	<u>66,727</u>	<u>49,871</u>	<u>125,089</u>	<u>98,907</u>
Total cost of revenues, selling and marketing expenses and general and administrative expenses	<u>1,504,829</u>	<u>860,340</u>	<u>2,843,866</u>	<u>1,603,381</u>

Note:

Research and development expenses were RMB264,582,000 and RMB535,855,000 for the three and six months ended 30 June 2009 respectively (for the three and six months ended 30 June 2008: RMB164,183,000 and RMB297,371,000, respectively). The expenses included employee benefit expenses of RMB201,278,000 and depreciation of fixed assets of RMB56,276,000 for the three months ended 30 June 2009 (for the three months ended 30 June 2008: RMB127,474,000 and RMB33,160,000, respectively) and employee benefit expenses of RMB414,564,000 and depreciation of fixed assets of RMB109,357,000 for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB230,335,000 and RMB61,182,000, respectively).

The Group did not capitalise any research and development expenses for the three and six months ended 30 June 2009 (for the three and six months ended 30 June 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.

(i) Cayman Islands and British Virgin Islands Profits Tax

The Group has not been subject to any taxation in these jurisdictions for the three and six months ended 30 June 2009 and 2008.

(ii) Hong Kong Profits Tax

No Hong Kong profits tax has been provided as the Group has no assessable profit arising in Hong Kong for the three and six months ended 30 June 2009 and 2008.

(iii) PRC Enterprise Income Tax ("EIT")

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 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.

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 Enterprises, 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 and six months ended 30 June 2009 (for the three and six months ended 30 June 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 and six months ended 30 June 2009.

The taxation charges of the Group for the three and six months ended 30 June 2009 and 2008 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC current tax	184,948	115,097	289,978	245,334
Deferred tax	<u>15,025</u>	<u>(44,479)</u>	<u>26,562</u>	<u>(73,876)</u>
	<u>199,973</u>	<u>70,618</u>	<u>316,540</u>	<u>171,458</u>

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 and six months ended 30 June 2009 (for the three and six months ended 30 June 2008: 18%), the tax rate of the major subsidiaries of the Company before preferential tax treaty. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	1,401,721	722,817	2,571,898	1,365,669
Add: Share of (profit)/losses of associates	<u>(3,452)</u>	<u>1,558</u>	<u>(8,824)</u>	<u>1,558</u>
	<u>1,398,269</u>	<u>724,375</u>	<u>2,563,074</u>	<u>1,367,227</u>
Tax calculated at a tax rate of 20% (for the three and six months ended 30 June 2008: 18%)	279,654	130,388	512,615	246,101
Income not subject to tax	—	(3,097)	—	(3,097)
Effects of different tax rates available to different companies of the Group	(29,390)	1,105	(69,957)	5,255
Effects of tax holiday on assessable profit of subsidiaries	(92,624)	(61,456)	(198,832)	(83,645)
Expenses not deductible for tax purposes	28,372	3,852	39,304	14,739
Unrecognised deferred tax assets/(Utilisation of previously unrecognised deferred tax assets)	<u>13,961</u>	<u>(174)</u>	<u>33,410</u>	<u>(7,895)</u>
Tax charge	<u>199,973</u>	<u>70,618</u>	<u>316,540</u>	<u>171,458</u>

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		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
Profit attributable to equity holders of the Company for the period (RMB’000)	<u>1,192,410</u>	<u>643,979</u>	<u>2,227,850</u>	<u>1,178,357</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,800,959</u>	<u>1,794,673</u>	<u>1,798,190</u>	<u>1,794,163</u>
Basic EPS (RMB per share)	<u><u>0.662</u></u>	<u><u>0.359</u></u>	<u><u>1.239</u></u>	<u><u>0.657</u></u>

(b) **Diluted**

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

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>1,192,410</u>	<u>643,979</u>	<u>2,227,850</u>	<u>1,178,357</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,800,959	1,794,673	1,798,190	1,794,163
Adjustments for share options (thousand shares)	39,797	50,490	38,246	51,224
Adjustments for awarded shares (thousand shares)	<u>825</u>	<u>95</u>	<u>638</u>	<u>47</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,841,581</u>	<u>1,845,258</u>	<u>1,837,074</u>	<u>1,845,434</u>
Diluted EPS (RMB per share)	<u><u>0.647</u></u>	<u><u>0.349</u></u>	<u><u>1.213</u></u>	<u><u>0.639</u></u>

10 Dividends

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, totalling approximately HKD629,802,000 (equivalent to RMB554,604,000) (final dividend for 2007: HKD286,990,000 (equivalent to RMB257,803,000)), were proposed pursuant to a resolution passed by the Board on 18 March 2009 and subsequently approved by shareholders in the annual general meeting held on 13 May 2009. Such dividends had been paid as at 30 June 2009.

The Board did not propose any interim dividend.

11 Subsequent events

On 10 July 2009, the Board has resolved to award 8,181,180 shares to 1,250 eligible persons (which shall be held by an independent trustee) pursuant to the Share Scheme by way of allotment of new shares of the Company under the general mandate granted by shareholders of the Company at the annual general meeting held on 13 May 2009.

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 15-day period ended 30 June 2009 (in millions)	For the 16-day period ended 31 March 2009	Percentage change
Registered IM user accounts (at end of period)	990.0	934.9	5.89%
Active user accounts (at end of period)	448.0	410.8	9.06%
Peak simultaneous online user accounts (for the quarter)	61.3	57.5	6.61%
Average daily user hours	996.8	847.3	17.64%
Average daily messages ⁽¹⁾	6,147.6	4,991.0	23.17%
Fee-based Internet value-added services registered subscriptions (at end of period)	40.0	36.9	8.40%
Fee-based mobile and telecommunications value-added services registered subscriptions (at end of period) ⁽²⁾	17.2	16.8	2.38%

(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.

Our IM platform continued to grow in the second quarter of 2009. Registered IM user accounts, active user accounts, peak simultaneous online user accounts, average daily user hours and average daily messages increased mainly due to the growing Internet market in China. The increase in usage and activity, as evidenced by the significant growth in average daily user hours and average daily messages, reflected the growing popularity of our social networking services, Qzone, which induced our users to spend more time logged on to our IM platform through cross-platform integration, and the commencement of summer holiday for students towards the end of June 2009.

The quarter saw healthy growth in registered subscription to our fee-based Internet value-added services, primarily driven by Qzone and QQ Membership. Registered subscriptions to our fee-based mobile and telecommunications value-added services also increased as our bundled SMS packages continued to be popular among users.

FINANCIAL PERFORMANCE HIGHLIGHTS

First Half of 2009

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

	Unaudited	
	Six months ended	
	30 June	30 June
	2009	2008
	RMB'000	RMB'000
Revenues	5,382,788	3,032,689
Cost of revenues	<u>(1,720,527)</u>	<u>(841,534)</u>
Gross profit	3,662,261	2,191,155
Other gains, net	24,557	73,303
Selling and marketing expenses	(212,692)	(186,146)
General and administrative expenses	<u>(910,647)</u>	<u>(575,701)</u>
Operating profit	2,563,479	1,502,611
Finance costs	(405)	(135,384)
Share of profit/(losses) of associates	<u>8,824</u>	<u>(1,558)</u>
Profit before income tax	2,571,898	1,365,669
Income tax expense	<u>(316,540)</u>	<u>(171,458)</u>
Profit for the period	<u>2,255,358</u>	<u>1,194,211</u>
Attributable to:		
Equity holders of the Company	2,227,850	1,178,357
Minority interests	<u>27,508</u>	<u>15,854</u>

Revenues. Revenues increased by 77.5% to RMB5,382.8 million for the first half of 2009 from RMB3,032.7 million for the first half of 2008.

	Unaudited			
	Six months ended			
	30 June 2009		30 June 2008	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	4,061,031	75.5%	2,035,775	67.1%
Mobile and telecommunications value-added services	909,548	16.9%	626,602	20.7%
Online advertising	389,607	7.2%	367,370	12.1%
Others	22,602	0.4%	2,942	0.1%
Total revenues	<u>5,382,788</u>	<u>100.0%</u>	<u>3,032,689</u>	<u>100.0%</u>

Cost of revenues. Cost of revenues increased by 104.5% to RMB1,720.5 million for the first half of 2009 from RMB841.5 million for the first half of 2008.

	Unaudited			
	Six months ended			
	30 June 2009		30 June 2008	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	1,209,779	29.8%	503,786	24.7%
Mobile and telecommunications value-added services	348,641	38.3%	221,720	35.4%
Online advertising	125,424	32.2%	93,147	25.4%
Others	36,683	162.3%	22,881	777.7%
Total cost of revenues	<u>1,720,527</u>		<u>841,534</u>	

Second Quarter of 2009

Unaudited consolidated revenues for the second quarter of 2009 were RMB2,878.4 million, an increase of 79.9% over the same period in 2008 and an increase of 14.9% from the first quarter of 2009.

Revenues from our Internet value-added services for the second quarter of 2009 were RMB2,156.5 million, an increase of 107.9% over the same period in 2008 and an increase of 13.2% from the first quarter of 2009.

Revenues from our mobile and telecommunications value-added services for the second quarter of 2009 were RMB470.0 million, an increase of 38.9% over the same period in 2008 and an increase of 6.9% from the first quarter of 2009.

Revenues from online advertising for the second quarter of 2009 were RMB243.0 million, an increase of 9.1% over the same period in 2008 and an increase of 65.8% from the first quarter of 2009.

Cost of revenues for the second quarter of 2009 were RMB934.6 million, an increase of 106.3% over the same period in 2008 and an increase of 18.9% from the first quarter of 2009.

Other gains, net of RMB25.3 million were recorded for the second quarter of 2009, compared to other gains, net of RMB25.9 million for the same period in 2008 and other losses, net of RMB0.8 million for the first quarter of 2009.

Selling and marketing expenses for the second quarter of 2009 were RMB114.6 million, an increase of 14.3% over the same period in 2008 and an increase of 16.8% from the first quarter of 2009.

General and administrative expenses for the second quarter of 2009 were RMB455.6 million, an increase of 48.4% over the same period in 2008 and an increase of 0.1% from the first quarter of 2009.

Operating profit for the second quarter of 2009 was RMB1,398.9 million, representing an increase of 82.8% over the same period in 2008 and an increase of 20.1% from the first quarter of 2009. As a percentage of revenues, operating profit accounted for 48.6% for the second quarter of 2009, compared to 47.8% for the same period in 2008 and 46.5% for the first quarter of 2009.

Profit for the second quarter of 2009 was RMB1,201.7 million, representing an increase of 84.3% over the same period in 2008 and an increase of 14.1% from the first quarter of 2009. As a percentage of revenues, profit for the period accounted for 41.8% for the second quarter of 2009, compared to 40.8% for the same period in 2008 and 42.1% for the first quarter of 2009.

Profit attributable to equity holders of the Company for the second quarter of 2009 was RMB1,192.4 million, an increase of 85.2% over the same period in 2008 and an increase of 15.2% from the first quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2009 Compared to First Quarter of 2009

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

	Unaudited	
	Three months ended	
	30 June	31 March
	2009	2009
	RMB'000	RMB'000
Revenues	2,878,423	2,504,365
Cost of revenues	<u>(934,613)</u>	<u>(785,914)</u>
Gross profit	1,943,810	1,718,451
Other gains/(losses), net	25,328	(771)
Selling and marketing expenses	(114,587)	(98,105)
General and administrative expenses	<u>(455,629)</u>	<u>(455,018)</u>
Operating profit	1,398,922	1,164,557
Finance (costs)/income	(653)	248
Share of profit of associates	<u>3,452</u>	<u>5,372</u>
Profit before income tax	1,401,721	1,170,177
Income tax expense	<u>(199,973)</u>	<u>(116,567)</u>
Profit for the period	<u>1,201,748</u>	<u>1,053,610</u>
Attributable to:		
Equity holders of the Company	1,192,410	1,035,440
Minority interests	<u>9,338</u>	<u>18,170</u>

Revenues. Revenues increased by 14.9% to RMB2,878.4 million for the second quarter of 2009 from RMB2,504.4 million for the first quarter of 2009. The following table sets forth our revenues by line of business for the second quarter of 2009 and the first quarter of 2009:

	Unaudited			
	Three months ended			
	30 June 2009		31 March 2009	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	2,156,468	74.9%	1,904,563	76.0%
Mobile and telecommunications value-added services	470,003	16.3%	439,545	17.6%
Online advertising	243,044	8.5%	146,563	5.9%
Others	8,908	0.3%	13,694	0.5%
Total revenues	<u>2,878,423</u>	<u>100.0%</u>	<u>2,504,365</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 13.2% to RMB2,156.5 million for the second quarter of 2009 from RMB1,904.6 million for the first quarter of 2009. Despite weaker seasonality, online gaming revenues recorded growth amid the increased monetization of our popular games, Dungeon and Fighter (“DNF”) and Cross Fire, as well as the organic growth of QQ Game. This was partially offset by the decline in revenues from more mature MMOGs, including QQ Fantasy, QQ SanGuo and QQ Huaxia. Revenues from our community value-added services increased with the growth in Qzone, QQ Membership and QQ Show, partly offset by QQ Pets. Growth in revenues from Qzone was stimulated by the launch of new applications which enhanced user engagement and activity. Revenues from QQ Membership continued to increase as a result of enhanced user loyalty and stickiness driven by the expansion of valued-added functions and cross promotions with our online games and other community services. QQ Show benefited from the growth in monthly subscription mainly driven by the ongoing enhancements in features and user experience. QQ Pets, a predominantly item-based service, experienced decline in revenues during the quarter primarily due to negative seasonality and as enhancement of the service was still in progress.

- Revenues from our mobile and telecommunications value-added services increased by 6.9% to RMB470.0 million for the second quarter of 2009 from RMB439.5 million for the first quarter of 2009. This was mainly driven by the growth in our bundled SMS packages due to ongoing enhancements in the privileges and user experience of our services. Mobile gaming revenues also grew during the quarter as a result of the rising popularity of mobile games and the enrichment of our game portfolio. The increase was partially offset by the decrease in revenue from mobile voice value-added services as a result of the dwindling business volume of color ringback tone.
- Revenues from online advertising increased by 65.8% to RMB243.0 million for the second quarter of 2009 from RMB146.6 million for the first quarter of 2009. The increase primarily reflected better seasonality in the second quarter. In addition, there was an increase in advertising spending as advertisers resumed their activities upon signing of framework contracts. The first quarter of 2009 was particularly subdued for the online advertising business as advertisers delayed their spending in response to the uncertain economic environment.

Cost of revenues. Cost of revenues increased by 18.9% to RMB934.6 million for the second quarter of 2009 from RMB785.9 million for the first quarter of 2009. This primarily reflected the increase in sharing costs, bandwidth and server custody fees, as well as telecommunications operators' revenue share. As a percentage of revenues, cost of revenues increased to 32.5% for the second quarter of 2009 from 31.4% for the first quarter of 2009. The following table sets forth our cost of revenues by line of business for the second quarter of 2009 and the first quarter of 2009:

	Unaudited			
	Three months ended			
	30 June 2009		31 March 2009	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	665,155	30.8%	544,624	28.6%
Mobile and telecommunications value-added services	179,581	38.2%	169,060	38.5%
Online advertising	73,423	30.2%	52,001	35.5%
Others	<u>16,454</u>	184.7%	<u>20,229</u>	147.7%
Total cost of revenues	<u>934,613</u>		<u>785,914</u>	

- Cost of revenues for our Internet value-added services increased by 22.1% to RMB665.2 million for the second quarter of 2009 from RMB544.6 million for the first quarter of 2009. The increase mainly reflected higher sharing costs driven by the growth in revenues from licensed games, including DNF and Cross Fire. It was also driven by the increase in bandwidth and server custody fees as well as telecommunications operators' revenue share due to the continuing expansion of our business.
- Cost of revenues for our mobile and telecommunications value-added services increased by 6.2% to RMB179.6 million for the second quarter of 2009 from RMB169.1 million for the first quarter of 2009. This was mainly driven by the increase in telecommunications operators' revenue share and sharing costs due to the growth in revenues that involved content provided by our partners.
- Cost of revenues for online advertising increased by 41.2% to RMB73.4 million for the second quarter of 2009 from RMB52.0 million for the first quarter of 2009. This mainly reflected the increase in sales commissions paid to advertising agencies as a result of the growth in advertising revenues.

Other gains/(losses), net. Other gains, net of RMB25.3 million were recorded for the second quarter of 2009, compared to other losses, net of RMB0.8 million for the first quarter of 2009. The change primarily reflected higher government subsidies received and the increase in fair value gains on financial assets held for trading. In addition, we made a donation of RMB25.0 million to the Tencent Charity Fund, which was lower than the RMB30.0 million for the previous quarter. These factors were partially offset by lower interest income.

Selling and marketing expenses. Selling and marketing expenses increased by 16.8% to RMB114.6 million for the second quarter of 2009 from RMB98.1 million for the first quarter of 2009. This was mainly attributable to the increase in staff costs as a result of the continued expansion of our business. Promotion and advertising expenses also increased as we started to spend more on brand advertising and promotion during the quarter to further enhance our brand position and media influence. As a percentage of revenues, selling and marketing expenses increased slightly to 4.0% in the second quarter of 2009 from 3.9% in the first quarter of 2009.

General and administrative expenses. General and administrative expenses amounted to RMB455.6 million for the second quarter of 2009 which was broadly stable compared to RMB455.0 million for the first quarter of 2009 despite the growth of our business. This primarily reflected the implementation of tighter temporary costs control measures under a challenging economic environment. As a percentage of revenues, general and administrative expenses decreased to 15.8% in the second quarter of 2009 from 18.2% in the first quarter of 2009.

Finance (costs)/income. We recorded finance costs of RMB0.7 million for the second quarter of 2009 compared to finance income of RMB0.2 million for the first quarter of 2009. This represented foreign exchange losses associated with our US dollar-denominated cash and investments arising from the slight appreciation of Renminbi during the second quarter.

Income tax expense. Income tax expense increased by 71.6% to RMB200.0 million for the second quarter of 2009 from RMB116.6 million for the first quarter of 2009. The increase mainly reflected higher profit before tax. Additional tax expense was also provided during the quarter upon the finalization of enterprise income tax assessment for 2008.

Profit for the period. As a result of the factors discussed above, profit for the period increased by 14.1% to RMB1,201.7 million for the second quarter of 2009 from RMB1,053.6 million for the first quarter of 2009. Net margin was 41.8% for the second quarter of 2009 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 15.2% to RMB1,192.4 million for the second quarter of 2009 from RMB1,035.4 million for the first quarter of 2009.

Second Quarter of 2009 Compared to Second Quarter of 2008

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

	Unaudited	
	Three months ended	
	30 June	30 June
	2009	2008
	RMB'000	RMB'000
Revenues	2,878,423	1,599,778
Cost of revenues	<u>(934,613)</u>	<u>(453,069)</u>
Gross profit	1,943,810	1,146,709
Other gains, net	25,328	25,855
Selling and marketing expenses	(114,587)	(100,212)
General and administrative expenses	<u>(455,629)</u>	<u>(307,059)</u>
Operating profit	1,398,922	765,293
Finance costs	(653)	(40,918)
Share of profit/(losses) of associates	<u>3,452</u>	<u>(1,558)</u>
Profit before income tax	1,401,721	722,817
Income tax expense	<u>(199,973)</u>	<u>(70,618)</u>
Profit for the period	<u>1,201,748</u>	<u>652,199</u>
Attributable to:		
Equity holders of the Company	1,192,410	643,979
Minority interests	<u>9,338</u>	<u>8,220</u>

Revenues. Revenues increased by 79.9% to RMB2,878.4 million for the second quarter of 2009 from RMB1,599.8 million for the second quarter of 2008. The following table sets forth our revenues by line of business for the second quarter of 2009 and the second quarter of 2008:

	Unaudited			
	Three months ended			
	30 June 2009		30 June 2008	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	2,156,468	74.9%	1,037,042	64.8%
Mobile and telecommunications value-added services	470,003	16.3%	338,311	21.2%
Online advertising	243,044	8.5%	222,790	13.9%
Others	8,908	0.3%	1,635	0.1%
Total revenues	<u>2,878,423</u>	<u>100.0%</u>	<u>1,599,778</u>	<u>100.0%</u>

- Revenues from our Internet value-added services increased by 107.9% to RMB2,156.5 million for the second quarter of 2009 from RMB1,037.0 million for the second quarter of 2008. Online gaming revenues registered strong growth, mainly attributable to the contribution of revenues from MMOGs and advanced casual games launched in 2008, including DNF, Cross Fire, QQ Dancer and QQ Speed, as well as the organic growth of QQ Game. This was partially offset by the decline in revenues from more mature MMOGs, including QQ Fantasy and QQ Huaxia. Revenues from our community value-added services also grew, primarily due to the growth in QQ Membership, Qzone and QQ Show. Revenues from QQ Membership increased as a result of improved user loyalty and stickiness driven by the expansion of value-added functions as well as cross promotions with our online games and other community services. Revenues from Qzone grew with increased user number and activity mainly driven by the continued improvements in functionalities and features as well as the introduction of new applications. QQ Show recorded revenue growth on the back of the successful transition from item-based to subscription-based business model.

- Revenues from our mobile and telecommunications value-added services increased by 38.9% to RMB470.0 million for the second quarter of 2009 from RMB338.3 million for the second quarter of 2008. This mainly reflected growth in revenues from bundled SMS packages as we continued to enhance the functionalities of our services and offer more privileges to users. Mobile gaming revenues also increased with the growing popularity of mobile games and the continuing enrichment of our game portfolio. The increase was partially offset by the decrease in revenue from mobile voice value-added services as a result of the dwindling business volume of color ringback tone.
- Revenues from online advertising increased by 9.1% to RMB243.0 million for the second quarter of 2009 from RMB222.8 million for the second quarter of 2008. This primarily reflected the growth in reach of and traffic on our advertising platforms, our enhanced brand awareness as well as our expanding user base, partly offset by the negative impact of the global economic downturn on advertising spending.

Cost of revenues. Cost of revenues increased by 106.3% to RMB934.6 million for the second quarter of 2009 from RMB453.1 million for the second quarter of 2008. This was mainly driven by the increase in sharing costs, bandwidth and server custody fees, telecommunications operators' revenue share, as well as staff costs. As a percentage of revenues, cost of revenues increased to 32.5% in the second quarter of 2009 from 28.3% in the second quarter of 2008. The following table sets forth our cost of revenues by line of business for the second quarter of 2009 and the second quarter of 2008:

	Unaudited			
	Three months ended			
	30 June 2009		30 June 2008	
	Amount	% of	Amount	% of
	revenues	segment	revenues	segment
	<i>(RMB in thousands, except percentages)</i>			
Internet value-added services	665,155	30.8%	269,244	26.0%
Mobile and telecommunications value-added services	179,581	38.2%	117,761	34.8%
Online advertising	73,423	30.2%	53,656	24.1%
Others	<u>16,454</u>	184.7%	<u>12,408</u>	758.9%
Total cost of revenues	<u>934,613</u>		<u>453,069</u>	

- Cost of revenues for our Internet value-added services increased by 147.0% to RMB665.2 million for the second quarter of 2009 from RMB269.2 million for the second quarter of 2008. This mainly reflected higher sharing costs driven by the growth in revenues from licensed games, including DNF and Cross Fire. This was also driven by the increase in bandwidth and server custody fees as well as telecommunications operators' revenue share due to the continuing expansion of business volume.
- Cost of revenues for our mobile and telecommunications value-added services increased by 52.5% to RMB179.6 million for the second quarter of 2009 from RMB117.8 million for the second quarter of 2008. This was primarily driven by the increase in telecommunications operators' revenue share and sharing costs due to the growth in revenues that involved content provided by our partners.
- Cost of revenues for online advertising increased by 36.8% to RMB73.4 million for the second quarter of 2009 from RMB53.7 million for the second quarter of 2008. The increase primarily reflected higher sales commissions paid to agencies. It was also driven by higher staff costs due to the growth in headcount for supporting our business expansion.

Other gains, net. Other gains, net decreased slightly by 2.0% to RMB25.3 million for the second quarter of 2009 from RMB25.9 million for the second quarter of 2008. The decrease primarily reflected lower government subsidies received and that the donation made to the Tencent Charity Fund increased to RMB25.0 million for the second quarter of 2009 from RMB20.0 million for the same period last year. It was offset by the increase in fair value gains on financial assets held for trading and higher interest income.

Selling and marketing expenses. Selling and marketing expenses increased by 14.3% to RMB114.6 million for the second quarter of 2009 from RMB100.2 million for the second quarter of 2008. This was primarily driven by higher staff costs and the increase in promotion and advertising expenses as our business continued to grow. As a percentage of revenues, selling and marketing expenses decreased to 4.0% in the second quarter of 2009 from 6.3% in the second quarter of 2008.

General and administrative expenses. General and administrative expenses increased by 48.4% to RMB455.6 million for the second quarter of 2009 from RMB307.1 million for the second quarter of 2008. The increase primarily reflected higher research and development costs as a result of the expansion in our research and development team as well as higher staff cost due to the growth of our business. As a percentage of revenues, general and administrative expenses decreased to 15.8% in the second quarter of 2009 from 19.2% in the second quarter of 2008.

Finance costs. Finance costs decreased by 98.4% to RMB0.7 million for the second quarter of 2009 from RMB40.9 million for the second quarter of 2008. This reflected a significant reduction in foreign exchange losses associated with our US dollar-denominated cash and investments arising from the appreciation of Renminbi.

Income tax expense. Income tax expense increased by 183.2% to RMB200.0 million for the second quarter of 2009 from RMB70.6 million for the second quarter of 2008. This primary reflected higher profit before tax. In addition, we recorded deferred tax assets of RMB53.7 million in the second quarter of 2008 relating to intra-group sales of technology and software, whereas no deferred tax assets was recognized in the second quarter of 2009. These factors were partly offset by lower tax rates applicable to certain subsidiaries in the second quarter of 2009 as they were qualified as high/new technology enterprises at the end of 2008.

Profit for the period. Profit for the period increased by 84.3% to RMB1,201.7 million for the second quarter of 2009 from RMB652.2 million for the second quarter of 2008. Profit margin was 41.8% for the second quarter of 2009 compared to 40.8% for the second quarter of 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 85.2% to RMB1,192.4 million for the second quarter of 2009 from RMB644.0 million for the second quarter of 2008.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Unaudited	
	30 June	31 March
	2009	2009
	RMB'000	RMB'000
Cash and cash equivalents	4,061,022	3,803,523
Term deposits with initial term of over three months	3,380,260	2,464,401
Financial assets held for trading	—	329,866
Held-to-maturity investments	<u>341,595</u>	—
Total	<u>7,782,877</u>	<u>6,597,790</u>

As at 30 June 2009, RMB1,174.2 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 30 June 2009.

BUSINESS REVIEW AND OUTLOOK

We delivered solid financial and operating results in the second quarter of 2009. Our Internet value-added services (“IVAS”) achieved growth, mainly driven by the increased monetization of our major games, DNF and Cross Fire, as well as the organic growth of QQ Game and our community value-added services. Our mobile and telecommunications value-added services (“MVAS”) registered healthy growth, thanks to the increasing popularity of our bundled SMS packages and mobile games. Our online advertising business also grew significantly on a quarter-on-quarter basis. This reflected more favorable seasonality as well as increased spending by advertisers as they resumed activities upon a delay in the signing of framework contracts. Looking ahead, we expect that the third quarter would present stronger seasonality compared to the second quarter for our online games due to summer school holidays, although the increase in monetization of games launched in 2008 would be more difficult as the games mature over time. Outlook of our online advertising business remains challenging as we are still facing an uncertain economic environment.

IM Platform

Active users and peak concurrent users (“PCU”) of our core IM platform increased to 448 million and 61 million respectively in the second quarter of 2009, as the Internet market in China continued to expand and the major upgraded version of our IM service, QQ2009, was well received by our users. As we improved integration among our various online platforms, the amount of time users spent on our IM service also increased. We will continue to leverage the enhanced architecture of QQ2009 to develop attractive functionalities for our users.

QQ.com

The second quarter saw continued growth in the traffic of our QQ.com portal, consolidating its position as the most visited portal in China. We started to step up our advertising and promotional activities during the quarter in order to strengthen our brand recognition and media influence. We will accelerate our brand investments in the second half of 2009 to further enhance our position as a mainstream media in China. We are also investing in our content, technology platform and operations to improve our long-term competitiveness.

Internet value-added services

Our community value-added services registered healthy growth during the quarter. For QQ Membership, we continued to focus on enhancing user stickiness and loyalty by bundling more valued-added functions as well as offline lifestyle privileges. We also increased cross promotions with our online games and other community value-added services, leveraging our diversified product portfolio and integrated online platforms. For SNS, Qzone benefited from the launch of new applications which enhanced user engagement and monetization. Its active user base increased by 25% on a quarter-on-quarter basis to 228 million at the end of the second quarter. QQ Show continued to register organic growth in monthly subscription. Trendy themes were launched to promote its fashionable appeal. For QQ Pets, we are still in the process of developing multi-player community functions to provide better experience to the users.

Our online gaming business grew during the quarter, benefiting from our platform strategy, diversified product portfolio as well as our strong experience in game operations. The PCU of QQ Game grew to 6.2 million in the second quarter mainly due to the short-term boost provided by special marketing activities and in-game promotions. Cross Fire benefited from increased monetization with upgrades and seasonal in-game promotions, and achieved 1.2 million in PCU during the quarter. DNF saw its PCU exceeding 1.9 million, on the back of the release of new content and items as well as increased promotional activities. We have recently launched Hero Island, a niche market MMOG developed by our subsidiary Shenzhen Domain, and are currently fine-tuning the close beta of A.V.A., a first person shooting game licensed from a Korean developer. In order to ensure the quality and depth of content for our upcoming MMOGs, we have decided to postpone the launch of our two in-house developed MMOGs, which were originally scheduled for launch towards the end of this year, to the first half of 2010. Although our gaming revenue may be affected in the short-term as a result of this decision, we believe it will benefit our gaming business over the longer run.

Mobile and telecommunications value-added services

Our MVAS business posted growth during the second quarter, primarily driven by our bundled SMS packages and mobile gaming services. This was partly offset by decline in our mobile voice value-added services due to the dwindling business volume of color ringback tone. On the wireless Internet front, our wireless portal further reinforced its position as the leading wireless portal in China with healthy growth in traffic. We also continued to customize our 2G/2.5G products for 3G platforms, although the exact timing of 3G widespread rollout and the realization of its growth opportunities remain uncertain. We believe visibility of the MVAS business remains low as the value chain of the industry is still in transition.

Online advertising

Our online advertising business registered significant growth in the second quarter compared to the first quarter amid better seasonality as well as the resumption of advertisers' activities after a delay in the signing of framework contracts. Advertising spending was particularly subdued in the first quarter of 2009 as advertisers took cautious cost control measures and held up their spending in response to the economic downturn. However, from a year-on-year perspective, growth in the business was significantly slower than previous years amid the challenging industry environment.

During the second quarter, we focused on promoting our unique core platforms, including IM, portal and SNS, as cost-effective marketing tools under a tough economic environment. We also fine-tuned our pricing strategy and offered inventory bundling to increase return on investments for advertisers. Looking into the second half of 2009, we expect the outlook of the online advertising industry to remain challenging as advertisers are still cautious and the recent improvements in market sentiment are still fragile. We will continue to make prudent investments in our sales organization, content, technology platform, branding and relationship with advertisers to prepare for an eventual market recovery in the future.

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2009, the Group had 6,421 employees (30 June 2008: 5,168), 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 granted to employees according to the assessment of individual performance.

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the six months ended 30 June 2009 was RMB950.2 million (for the six months ended 30 June 2008: RMB593.6 million).

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

During the six months ended 30 June 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 over the long term. Details of the shares repurchased are as follows:

Month of purchase in the six months ended 30 June 2009	<i>No. of shares purchased</i>	<i>Purchase consideration per share</i>		<i>Aggregate consideration paid HKD</i>
		<i>Highest price paid HKD</i>	<i>Lowest price paid HKD</i>	
January	1,822,000	45.80	41.50	79,706,000
February	<u>100,000</u>	47.00	45.80	<u>4,644,000</u>
Total	<u>1,922,000</u>			<u>84,350,000</u>

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 six months ended 30 June 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 and six months ended 30 June 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 six months ended 30 June 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, 12 August 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.