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**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 2012**

The Board is pleased to announce the unaudited consolidated results of the Group for the three and six months ended 30 June 2012. These interim results have been reviewed by the Auditor in accordance with the International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

**FINANCIAL PERFORMANCE HIGHLIGHTS**

	<b>Unaudited</b>		
	<b>Six months ended</b>		
	<b>30 June</b>	30 June	Year-
	<b>2012</b>	2011	on-year
	<i>(RMB in millions, unless specified)</i>		
Revenues	<b>20,175.1</b>	13,077.5	54.3%
Operating profit	<b>7,629.0</b>	6,170.4	23.6%
Profit for the period	<b>6,072.9</b>	5,227.5	16.2%
Profit attributable to equity holders of the Company	<b>6,049.6</b>	5,219.6	15.9%
Non-GAAP profit attributable to equity holders of the Company	<b>6,667.3</b>	5,271.5	26.5%
EPS (RMB per share)			
- basic	<b>3.316</b>	2.863	15.8%
- diluted	<b>3.252</b>	2.800	16.1%

	<b>Unaudited</b>				
	<b>Three months ended</b>				
	<b>30 June</b>	31 March	Quarter-	30 June	Year-
	<b>2012</b>	2012	on-quarter	2011	on-year
			change		change
	<i>(RMB in millions, unless specified)</i>				
Revenues	<b>10,527.2</b>	9,647.9	9.1%	6,739.0	56.2%
Operating profit	<b>3,937.6</b>	3,691.4	6.7%	2,783.9	41.4%
Profit for the period	<b>3,110.6</b>	2,962.3	5.0%	2,343.3	32.7%
Profit attributable to equity holders of the Company	<b>3,100.1</b>	2,949.5	5.1%	2,349.2	32.0%
Non-GAAP profit attributable to equity holders of the Company	<b>3,386.3</b>	3,281.1	3.2%	2,686.8	26.0%
EPS (RMB per share)					
- basic	<b>1.698</b>	1.618	4.9%	1.289	31.7%
- diluted	<b>1.665</b>	1.587	4.9%	1.260	32.1%

## **BUSINESS REVIEW AND OUTLOOK**

### **Overall Financial Performance**

Despite maturing Internet user growth and decelerating economic growth, we sustained healthy year-on-year improvements in our revenues, earnings, and cash flow during the second quarter of 2012. Our IVAS business continued to expand year-on-year as our existing and new games added users, and as we generated more revenue from applications on our open platforms. Our MVAS business experienced modest growth during the quarter, thanks primarily to our bundled SMS packages and mobile games. Our online advertising business achieved a significant year-on-year growth rate, due to new platform contributions and market share gains in key advertiser categories. Revenue of our e-Commerce transactions business increased sequentially, benefiting from growth in GMV of principal transactions and, to a lesser extent, commission fees derived from transactions on our marketplace.

## **Strategic Highlights**

In May 2012, we announced a reorganisation of our business units into six new business groups. In addition, a wholly-owned subsidiary has been formed for managing our e-Commerce transactions business. This reorganisation is intended to help us capture new opportunities in the evolving Internet industry, by better allocating our resources toward the core technologies and platforms that may support our future business growth.

We believe establishment of the new business groups will reinforce our entrepreneurial spirit, execution and innovation, and will sharpen each group's focus on addressing its target users' needs. Simultaneously, under the principle of "One Tencent", the business groups will continue to enjoy company-wide synergies by sharing technical infrastructure and by integrating certain services, where we believe such integration brings value to users.

## **Divisional and Product Highlights**

### *IM Platform*

MAUs of QQ IM increased by 12% on a year-on-year basis to 784 million at the end of the second quarter of 2012. Such growth rate was broadly in line with the user growth of the overall Internet market in China. PCU for the quarter was 167 million, representing 22% growth as compared to the same period last year. Per user engagement continued to improve, as evidenced by the year-on-year growth rates of PCU and daily user hours exceeding that of MAUs. We believe QQ IM's PCU growth rate may slow in future as increased mobile usage creates more dispersion of time spent on QQ IM through different day parts.

### *Media Platforms*

We believe we are uniquely positioned in the China Internet market because of our leadership across multiple media platforms, and our ability to provide cross-platform integration and user benefits. During the second quarter of 2012, we expanded our platforms and deepened our media influence. QQ.com continued to lead amongst Internet portals in China in terms of traffic and unique visitors. Recently, we have revamped QQ.com's front page and certain major channels to help users find and share news, video, and microblog content more easily. Tencent Microblog further expanded its user base, with 469 million registered users and 82 million DAUs at the end of the second quarter of 2012. Tencent Video achieved solid user growth as we continued to enrich our content and improve our user experience.

## *IVAS*

In the second quarter of 2012, our online communities registered continued growth in user base. Qzone maintained its position as the leading social network in China, with MAUs increasing by 12% on a year-on-year basis to 598 million at the end of the second quarter of 2012. MAUs of Pengyou reached 248 million at the end of the quarter, representing year-on-year growth of 31%. For our IVAS subscription services, we introduced more stringent measures during the quarter to clean up free-riders who subscribed through telecommunications operators, in order to enhance the quality of our subscriber base. As a result of these measures, our IVAS registered subscriptions declined and our overall collection rates improved. Given these measures mostly affected non-paying users, they had limited impact on our revenues. As for our open platforms, we continued to introduce more third-party and first-party applications to users during the second quarter. Consequently, item-based sales within applications grew strongly. Recently, we have introduced a streamlined process for third-party developers to launch their applications across our range of services more efficiently.

Our online game business continued to grow in terms of users and revenues. Contributions from international markets, whose seasonality may differ from that of China, continued to climb as we broadened our user base in different regions. Our QQ Game Platform enjoyed a healthy growth rate, with its PCU increasing by 17% on a year-on-year basis to 8.8 million for the second quarter of 2012.

We continued to develop our game pipeline, putting new titles such as Legend of Yulong and NBA2K Online into closed beta testing during the second quarter. In July, we announced an exclusive strategic partnership with Activision Blizzard to bring its Call of Duty Online title to China. We believe that our game platform and operational expertise will support the delivery of what we expect to be an immersive and highly interactive game experience.

## *MVAS*

In the second quarter of 2012, our MVAS business registered stable year-on-year revenue growth and modest sequential revenue growth, primarily from our bundled SMS packages and mobile games. We continued to market our smartphone applications, such as mobile security and mobile browser, to further expand our user base on the mobile Internet. The regulatory environment for MVAS remains uncertain, and we will continue to position for the mobile Internet future.

### *Online Advertising*

Driven by new platform contributions and market share gains in key advertiser categories, we achieved a robust year-on-year revenue growth rate in the second quarter of 2012. Our sequential revenue growth was mainly driven by positive seasonality and improved monetisation on our new platforms. Within brand display advertising, our strong traffic and high ROI enabled us to sustain growth despite a more challenging macro environment, and revenues from our online video platform more than doubled sequentially. Within performance-based display advertising, we achieved strong revenue growth on our social networks during the quarter, reflecting more inventory and thus impressions made available to advertisers, as well as improved click-through rates on the back of enhancements to our targeted advertising system. Within search advertising, we grew revenues from desktop search, mobile search, and e-Commerce search, while continuing to improve our search results quality, mobile search experience, and search integration with upstream properties, such as our portal and mobile browser.

### *e-Commerce Transactions*

Despite an intensively competitive market environment, GMV of our principal transactions increased sequentially during the second quarter of 2012. Commission fees derived from transactions on our marketplace also increased, albeit from a low base. We will continue our efforts to leverage our significant user base to build an e-Commerce open platform and a healthy industry value chain.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Information

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

	<b>As at 30 June 2012</b>	As at 31 March 2012	Quarter- on-quarter change	As at 30 June 2011	Year- on-year change
	<i>(in millions, unless specified)</i>				
Monthly active IM user accounts	<b>783.6</b>	751.9	4.2%	701.9	11.6%
Peak simultaneous online IM user accounts (for the quarter)	<b>166.6</b>	167.4	-0.5%	136.7	21.9%
Average daily IM user hours (for the last 15/16 days of the quarter)	<b>2,775.8</b>	2,629.4	5.6%	2,226.0	24.7%
Monthly active Qzone user accounts	<b>597.6</b>	576.7	3.6%	536.0	11.5%
Peak simultaneous online QQ Game Platform user accounts (for the quarter)	<b>8.8</b>	8.8	0.0%	7.5	17.3%
Fee-based IVAS registered subscriptions	<b>74.7</b>	81.8	-8.7%	76.5	-2.4%
Fee-based MVAS registered subscriptions	<b>34.6</b>	34.5	0.3%	29.8	16.1%

- *QQ*. MAU of our core IM platform registered organic growth on a year-on-year basis, broadly in line with the user growth of the overall Internet market in China. The year-on-year growth of peak simultaneous online user accounts and average daily user hours was significantly higher, reflecting improved engagement per user.
- *Qzone*. MAU of Qzone grew organically on a year-on-year basis, with rapid increase in mobile users. Third-party applications on Qzone continued to gain popularity during the quarter.
- *QQ Game Platform*. Peak simultaneous online user accounts of our QQ Game Platform registered a healthy year-on-year growth rate as a result of improved user activity, and remained stable sequentially in the face of weaker seasonality.
- *IVAS subscriptions*. IVAS registered subscriptions decreased as compared to the same period last year and the preceding quarter. During the second quarter of 2012, we introduced more stringent measures to clean up certain IVAS user accounts, which were acquired through telecommunications operators and for which fee collection was unlikely, in order to enhance the quality of our subscriber base. As a result of these measures, IVAS registered subscriptions declined and our overall collection rates improved. Given these measures mostly affected non-paying users, they had limited impact on our revenues.
- *MVAS subscriptions*. Registered subscriptions to our MVAS increased on a year-on-year basis, primarily driven by our bundled SMS packages.

## Second Quarter of 2012 Compared to First Quarter of 2012

The following table sets forth the comparative figures for the second quarter of 2012 and the first quarter of 2012:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	31 March
	<b>2012</b>	2012
	<b>RMB'000</b>	<b>RMB'000</b>
Revenues	<b>10,527,244</b>	9,647,858
Cost of revenues	<b><u>(4,311,379)</u></b>	<u>(3,836,317)</u>
Gross profit	<b>6,215,865</b>	5,811,541
Interest income	<b>196,806</b>	166,733
Other losses, net	<b>(3,219)</b>	(63,642)
Selling and marketing expenses	<b>(609,672)</b>	(469,200)
General and administrative expenses	<b><u>(1,862,165)</u></b>	<u>(1,754,074)</u>
Operating profit	<b>3,937,615</b>	3,691,358
Finance costs, net	<b>(115,256)</b>	(69,982)
Share of profit/(losses) of associates	<b>5,411</b>	(9,753)
Share of (losses)/profit of jointly controlled entities	<b><u>(9,375)</u></b>	<u>1,380</u>
Profit before income tax	<b>3,818,395</b>	3,613,003
Income tax expense	<b><u>(707,824)</u></b>	<u>(650,673)</u>
Profit for the period	<b><u>3,110,571</u></b>	<u>2,962,330</u>
Attributable to:		
Equity holders of the Company	<b>3,100,075</b>	2,949,510
Non-controlling interests	<b><u>10,496</u></b>	<u>12,820</u>
	<b><u>3,110,571</u></b>	<u>2,962,330</u>
Non-GAAP profit attributable to equity holders of the Company	<b><u>3,386,266</u></b>	<u>3,281,064</u>

*Revenues.* Revenues increased by 9% to RMB10,527 million for the second quarter of 2012 from RMB9,648 million for the first quarter of 2012. The following table sets forth our revenues by line of business for the second quarter of 2012 and the first quarter of 2012:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 June 2012</b>		<b>31 March 2012</b>	
	<b>% of total</b>		<b>% of total</b>	
	<b>Amount</b>	<b>revenues</b>	<b>Amount</b>	<b>revenues</b>
	<i>(RMB in thousands, unless specified)</i>			
IVAS	<b>7,786,625</b>	<b>74.0%</b>	7,381,621	76.5%
MVAS	<b>929,007</b>	<b>8.8%</b>	913,842	9.5%
Online advertising	<b>879,691</b>	<b>8.4%</b>	540,113	5.6%
e-Commerce transactions	<b>857,526</b>	<b>8.1%</b>	752,817	7.8%
Others	<b>74,395</b>	<b>0.7%</b>	59,465	0.6%
<b>Total revenues</b>	<b><u>10,527,244</u></b>	<b><u>100.0%</u></b>	<b><u>9,647,858</u></b>	<b><u>100.0%</u></b>

- Revenues from our IVAS increased by 5% to RMB7,787 million for the second quarter of 2012 from RMB7,382 million for the first quarter of 2012. Online game revenues increased by 5% to RMB5,565 million. Game revenues from China registered modest growth during the quarter with weaker seasonality due to school examinations, while contributions from international markets, whose seasonality may differ from that of China, continued to climb. Revenues from our community and open platforms increased by 8% to RMB2,222 million, riding on growth in item-based sales within applications, including those on our SNS platforms. QQ Membership subscriptions revenue also contributed to the increase.
- Revenues from our MVAS increased by 2% to RMB929 million for the second quarter of 2012 from RMB914 million for the first quarter of 2012. This was mainly attributable to growth in our bundled SMS packages and mobile games.
- Revenues from our online advertising business increased by 63% to RMB880 million for the second quarter of 2012 from RMB540 million for the first quarter of 2012. In addition to more favourable seasonality in the second quarter, our online advertising business benefited from the rapid revenue growth of performance advertising on our social networks, and brand display advertising on our online video platform.

- Revenues from our e-Commerce transactions business increased by 14% to RMB858 million for the second quarter of 2012 from RMB753 million for the first quarter of 2012. This primarily reflected growth in GMV of principal e-Commerce transactions. Commission fees generated from transactions on our marketplace also contributed to the growth of our e-Commerce transactions business.

*Cost of revenues.* Cost of revenues increased by 12% to RMB4,311 million for the second quarter of 2012 from RMB3,836 million for the first quarter of 2012. This mainly reflected an increase in sharing costs, cost of merchandise sold, staff costs and bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 41% for the second quarter of 2012 from 40% for the first quarter of 2012. The following table sets forth our cost of revenues by line of business for the second quarter of 2012 and the first quarter of 2012:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 June 2012</b>		31 March 2012	
		<b>% of</b>		<b>% of</b>
	<b>Amount</b>	<b>segment</b>	Amount	segment
		<b>revenues</b>		revenues
	<i>(RMB in thousands, unless specified)</i>			
IVAS	<b>2,645,374</b>	<b>34.0%</b>	2,408,823	32.6%
MVAS	<b>358,935</b>	<b>38.6%</b>	338,839	37.1%
Online advertising	<b>421,288</b>	<b>47.9%</b>	316,183	58.5%
e-Commerce transactions	<b>836,005</b>	<b>97.5%</b>	732,051	97.2%
Others	<b>49,777</b>	<b>66.9%</b>	40,421	68.0%
<b>Total cost of revenues</b>	<b><u>4,311,379</u></b>		<b><u>3,836,317</u></b>	

- Cost of revenues for our IVAS increased by 10% to RMB2,645 million for the second quarter of 2012 from RMB2,409 million for the first quarter of 2012. This was mainly driven by an increase in sharing costs as a result of revenue growth of certain licensed games. Bandwidth and server custody fees also increased along with the expansion of our business.
- Cost of revenues for our MVAS increased by 6% to RMB359 million for the second quarter of 2012 from RMB339 million for the first quarter of 2012. This primarily reflected higher staff costs. Bandwidth and server custody fees and sharing costs also contributed to the increase.

- Cost of revenues for our online advertising business increased by 33% to RMB421 million for the second quarter of 2012 from RMB316 million for the first quarter of 2012. This primarily reflected greater commissions payable to advertising agencies and increased sharing costs for our search business. Content costs related to our online video platform and staff costs also rose.
- Cost of revenues for our e-Commerce transactions business increased by 14% to RMB836 million for the second quarter of 2012 from RMB732 million for the first quarter of 2012, primarily driven by greater cost of merchandise sold as a result of growth in GMV of principal transactions.

*Other losses, net.* Other losses, net decreased by 95% to RMB3 million for the second quarter of 2012 from RMB64 million for the first quarter of 2012. This mainly reflected no donation being made to the Tencent Charity Fund in the second quarter of 2012, whereas RMB60 million was made to the fund in the first quarter of 2012.

*Selling and marketing expenses.* Selling and marketing expenses increased by 30% to RMB610 million for the second quarter of 2012 from RMB469 million for the first quarter of 2012. This primarily reflected an increase in promotion and advertising expenses related to our products and platforms such as new online games and online security products. Staff costs also contributed to the increase in selling and marketing expenses. As a percentage of revenues, selling and marketing expenses increased to 6% for the second quarter of 2012 from 5% for the first quarter of 2012.

*General and administrative expenses.* General and administrative expenses increased by 6% to RMB1,862 million for the second quarter of 2012 from RMB1,754 million for the first quarter of 2012. This mainly reflected an increase in research and development expenses and staff costs due to the growth of our business scale, partly offset by a decrease in intangible asset amortisation as certain intangible assets acquired through acquisition were fully amortised in the first quarter of 2012. As a percentage of revenues, general and administrative expenses was 18% for the second quarter of 2012, stable compared to the first quarter of 2012.

*Finance costs, net.* Finance costs, net increased by 65% to RMB115 million for the second quarter of 2012 from RMB70 million for the first quarter of 2012. This mainly reflected the recognition of exchange losses on our foreign currency denominated debts resulting from exchange rate movements in the second quarter of 2012.

*Income tax expense.* Income tax expense increased by 9% to RMB708 million for the second quarter of 2012 from RMB651 million for the first quarter of 2012. This primarily reflected an increase in profit before tax and the absence of deferred tax liabilities reversal arising from the Riot Games Acquisition.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 5% to RMB3,100 million for the second quarter of 2012 from RMB2,950 million for the first quarter of 2012. Non-GAAP profit attributable to equity holders of the Company increased by 3% to RMB3,386 million for the second quarter of 2012 from RMB3,281 million for the first quarter of 2012.

## Second Quarter of 2012 Compared to Second Quarter of 2011

The following table sets forth the comparative figures for the second quarter of 2012 and the second quarter of 2011:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenues	<b>10,527,244</b>	6,739,044
Cost of revenues	<b><u>(4,311,379)</u></b>	<u>(2,331,637)</u>
Gross profit	<b>6,215,865</b>	4,407,407
Interest income	<b>196,806</b>	106,546
Other (losses)/gains, net	<b>(3,219)</b>	2,809
Selling and marketing expenses	<b>(609,672)</b>	(369,491)
General and administrative expenses	<b><u>(1,862,165)</u></b>	<u>(1,363,372)</u>
Operating profit	<b>3,937,615</b>	2,783,899
Finance (costs)/income, net	<b>(115,256)</b>	1,771
Share of profit of associates	<b>5,411</b>	23,454
Share of losses of jointly controlled entities	<b><u>(9,375)</u></b>	<u>(60,689)</u>
Profit before income tax	<b>3,818,395</b>	2,748,435
Income tax expense	<b><u>(707,824)</u></b>	<u>(405,163)</u>
Profit for the period	<b><u>3,110,571</u></b>	<u>2,343,272</u>
Attributable to:		
Equity holders of the Company	<b>3,100,075</b>	2,349,246
Non-controlling interests	<b><u>10,496</u></b>	<u>(5,974)</u>
	<b><u>3,110,571</u></b>	<u>2,343,272</u>
Non-GAAP profit attributable to equity holders of the Company	<b><u>3,386,266</u></b>	<u>2,686,757</u>

*Revenues.* Revenues increased by 56% to RMB10,527 million for the second quarter of 2012 from RMB6,739 million for the second quarter of 2011. The following table sets forth our revenues by line of business for the second quarter of 2012 and the second quarter of 2011:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Amount</b>	<b>% of total revenues</b>	<b>Amount</b>	<b>% of total revenues</b>
<i>(RMB in thousands, unless specified)</i>				
IVAS	<b>7,786,625</b>	<b>74.0%</b>	5,386,578	79.9%
MVAS	<b>929,007</b>	<b>8.8%</b>	793,839	11.8%
Online advertising	<b>879,691</b>	<b>8.4%</b>	512,312	7.6%
e-Commerce transactions	<b>857,526</b>	<b>8.1%</b>	—	—
Others	<b>74,395</b>	<b>0.7%</b>	46,315	0.7%
<b>Total revenues</b>	<b><u>10,527,244</u></b>	<b><u>100.0%</u></b>	<b><u>6,739,044</u></b>	<b><u>100.0%</u></b>

- Revenues from our IVAS increased by 45% to RMB7,787 million for the second quarter of 2012 from RMB5,387 million for the second quarter of 2011. Online game revenues increased by 53% to RMB5,565 million. This mainly reflected the increased popularity of our major titles such as Cross Fire, QQ Dancer, DNF, and QQ Speed in the China market, the growth of our mini casual games, as well as contributions from new titles and international markets. Revenues from our community and open platforms increased by 27% to RMB2,222 million, primarily attributable to growth in our open platforms and QQ Membership. Revenues from our open platforms grew on the back of a significant increase in item-based sales within applications, including those on our SNS platforms. The growth in QQ Membership mainly reflected an expanded subscriber base driven by enhanced privileges and value-added functions.
- Revenues from our MVAS increased by 17% to RMB929 million for the second quarter of 2012 from RMB794 million for the second quarter of 2011. This was primarily driven by an increase in revenues from our bundled SMS packages and mobile games.

- Revenues from our online advertising business increased by 72% to RMB880 million for the second quarter of 2012 from RMB512 million for the second quarter of 2011. This mainly reflected the revenue contributions from performance advertising on our social networks, the rapid growth of brand display advertising on our online video platform, and search advertising. Traditional brand display advertising also contributed to our business growth.
- Revenues from our e-Commerce transactions business, which primarily consist of GMV of principal transactions and commission fees generated from transactions on our marketplace, amounted to RMB858 million for the second quarter of 2012.

*Cost of revenues.* Cost of revenues increased by 85% to RMB4,311 million for the second quarter of 2012 from RMB2,332 million for the second quarter of 2011. This mainly reflected the recognition of cost of merchandise sold relating to our e-Commerce transactions business as well as an increase in sharing costs and staff costs. As a percentage of revenues, cost of revenues increased to 41% for the second quarter of 2012 from 35% for the second quarter of 2011. The following table sets forth our cost of revenues by line of business for the second quarter of 2012 and the second quarter of 2011:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Amount</b>	<b>% of segment revenues</b>	<b>Amount</b>	<b>% of segment revenues</b>
	<i>(RMB in thousands, unless specified)</i>			
IVAS	<b>2,645,374</b>	<b>34.0%</b>	1,788,240	33.2%
MVAS	<b>358,935</b>	<b>38.6%</b>	322,454	40.6%
Online advertising	<b>421,288</b>	<b>47.9%</b>	168,624	32.9%
e-Commerce transactions	<b>836,005</b>	<b>97.5%</b>	–	–
Others	<b>49,777</b>	<b>66.9%</b>	<u>52,319</u>	113.0%
<b>Total cost of revenues</b>	<b><u>4,311,379</u></b>		<b><u>2,331,637</u></b>	

- Cost of revenues for our IVAS increased by 48% to RMB2,645 million for the second quarter of 2012 from RMB1,788 million for the second quarter of 2011. This mainly reflected growth in sharing costs driven by increased revenues from licensed games. Staff costs also increased as our business grew.

- Cost of revenues for our MVAS increased by 11% to RMB359 million for the second quarter of 2012 from RMB322 million for the second quarter of 2011. This primarily reflected higher bandwidth and server custody fees as well as an increase in mobile and telecommunications revenue sharing costs.
- Cost of revenues for our online advertising business increased by 150% to RMB421 million for the second quarter of 2012 from RMB169 million for the second quarter of 2011. The increase was primarily driven by the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and server custody fees, to the online advertising segment since the fourth quarter of 2011. It was also driven by an increase in staff costs, sales commissions payable to advertising agencies and sharing costs for our search advertising business as our business expanded.
- Cost of revenues for our e-Commerce transactions business, which primarily consists of cost of merchandise sold, amounted to RMB836 million for the second quarter of 2012.

*Other (losses)/gains, net.* We recorded other losses, net of RMB3 million for the second quarter of 2012, compared to other gains, net of RMB3 million for the second quarter of 2011.

*Selling and marketing expenses.* Selling and marketing expenses increased by 65% to RMB610 million for the second quarter of 2012 from RMB369 million for the second quarter of 2011. This primarily reflected an increase in promotion and advertising expenses related to products and platforms such as online games, online security products and mobile applications. Staff costs also increased as our business expanded. As a percentage of revenues, selling and marketing expenses increased to 6% for the second quarter of 2012 from 5% for the second quarter of 2011.

*General and administrative expenses.* General and administrative expenses increased by 37% to RMB1,862 million for the second quarter of 2012 from RMB1,363 million for the second quarter of 2011. This was mainly driven by an increase in research and development expenses and staff costs, partly offset by a decrease in intangible asset amortisation as certain intangible assets acquired through acquisition were fully amortised in the first quarter of 2012. As a percentage of revenues, general and administrative expenses decreased to 18% for the second quarter of 2012 from 20% for the second quarter of 2011.

*Finance (costs)/income, net.* We recorded finance costs, net of RMB115 million for the second quarter of 2012, compared to finance income, net of RMB2 million for the second quarter of 2011. The change primarily reflected an increase in interest-bearing debts and the recognition of exchange losses on our foreign currency denominated debts resulting from exchange rate movements in the second quarter of 2012.

*Income tax expense.* Income tax expense increased by 75% to RMB708 million for the second quarter of 2012 from RMB405 million for the second quarter of 2011. This was primarily driven by an increase in profit before tax. The increase also reflected the absence of deferred tax liabilities reversal arising from the Riot Games Acquisition and lower income tax expense reversal as a result of the finalisation of our corporate income tax assessment.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 32% to RMB3,100 million for the second quarter of 2012 from RMB2,349 million for the second quarter of 2011. Non-GAAP profit attributable to equity holders of the Company increased by 26% to RMB3,386 million for the second quarter of 2012 from RMB2,687 million for the second quarter of 2011.

## Other Financial Information

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	<i>(RMB in thousands, unless specified)</i>				
EBITDA (a)	<b>8,585,869</b>	6,392,021	<b>4,331,322</b>	4,254,547	3,171,308
Adjusted EBITDA (a)	<b>9,020,172</b>	6,726,473	<b>4,558,963</b>	4,461,209	3,361,637
Adjusted EBITDA margin (b)	<b>44.7%</b>	51.4%	<b>43.3%</b>	46.2%	49.9%
Interest expense	<b>136,922</b>	29,817	<b>69,344</b>	67,578	13,132
Net cash (c)	<b>19,631,631</b>	15,749,917	<b>19,631,631</b>	20,818,507	15,749,917
Capital expenditures (d)	<b>1,577,286</b>	1,663,863	<b>915,156</b>	662,130	943,047

### Note:

- (a) EBITDA consists of operating profit less interest income, and plus other losses/(gains), net, depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash is calculated as cash and cash equivalents, term deposits with initial term of over three months, and restricted cash pledged for secured bank borrowings, minus total borrowings and long-term notes payable.
- (d) Capital expenditures consist of additions (excluding business combination) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).

The following table reconciles our operating profit to our EBITDA and Adjusted EBITDA for the periods indicated.

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit	<b>7,628,973</b>	6,170,402	<b>3,937,615</b>	3,691,358	2,783,899
Less: Interest income	<b>(363,539)</b>	(207,208)	<b>(196,806)</b>	(166,733)	(106,546)
Add: Other losses/(gains), net	<b>66,861</b>	(341,878)	<b>3,219</b>	63,642	(2,809)
Add: Depreciation of fixed assets and investment properties	<b>869,000</b>	494,844	<b>444,830</b>	424,170	274,113
Add: Amortisation of intangible assets	<b><u>384,574</u></b>	<u>275,861</u>	<b><u>142,464</u></b>	<u>242,110</u>	<u>222,651</u>
EBITDA	<b>8,585,869</b>	6,392,021	<b>4,331,322</b>	4,254,547	3,171,308
Equity-settled share-based compensation	<b><u>434,303</u></b>	<u>334,452</u>	<b><u>227,641</u></b>	<u>206,662</u>	<u>190,329</u>
Adjusted EBITDA	<b><u>9,020,172</u></b>	<u>6,726,473</u>	<b><u>4,558,963</u></b>	<u>4,461,209</u>	<u>3,361,637</u>

## Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of acquisitions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first half of 2012 and 2011, the second quarter of 2012 and 2011, and the first quarter of 2012 to the nearest measures prepared in accordance with IFRS:

Unaudited six months ended 30 June 2012						
	As reported	Adjustments			Non-GAAP	
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Gain on deemed disposal (b)		Amortisation of intangible assets (c)
Operating profit	7,628,973	434,303	57,975	–	168,511	8,289,762
Profit for the period	6,072,901	434,303	57,975	–	155,752	6,720,931
Profit attributable to equity holders of the Company	6,049,585	425,609	51,130	–	141,006	6,667,330
Operating margin	37.8%					41.1%
Net margin	30.1%					33.3%

*(RMB in thousands, unless specified)*



Unaudited three months ended 30 June 2011

	Adjustments					Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Gain on deemed disposal (b)	Amortisation of intangible assets (c)	
	<i>(RMB in thousands, unless specified)</i>					
Operating profit	2,783,899	190,329	24,446	–	199,215	3,197,889
Profit for the period	2,343,272	190,329	24,446	–	136,440	2,694,487
Profit attributable to equity holders of the Company	2,349,246	187,252	22,618	–	127,641	2,686,757
Operating margin	41.3%					47.5%
Net margin	34.8%					40.0%

*Note:*

- (a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Gain on deemed disposal of previously held interest in associates
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax

## Liquidity and Financial Resources

Our net cash positions as at 30 June 2012 and 31 March 2012 are as follows:

	<b>Unaudited 30 June 2012 RMB'000</b>	Unaudited 31 March 2012 RMB'000
Cash and cash equivalents	<b>10,602,451</b>	13,348,679
Term deposits with initial term of over three months	<b>17,014,730</b>	15,909,027
Restricted cash pledged for secured bank borrowings	<u><b>324,347</b></u>	<u>968,675</u>
	<b>27,941,528</b>	30,226,381
Long-term notes payable	<b>(3,751,839)</b>	(3,731,549)
Long-term borrowings	<b>(948,735)</b>	—
Short-term borrowings	<u><b>(3,609,323)</b></u>	<u>(5,676,325)</u>
Net cash	<u><b>19,631,631</b></u>	<u>20,818,507</u>

As at 30 June 2012, RMB5,343 million of our financial resources (31 March 2012: RMB6,020 million) were held in deposits and investments denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

## FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

		Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets		6,201,179	5,884,952
Construction in progress		323,786	158,656
Investment properties		21,643	21,871
Land use rights		348,509	230,915
Intangible assets		4,194,417	3,779,976
Interests in associates	3	5,292,559	4,338,075
Investment in jointly controlled entities		53,908	61,903
Deferred income tax assets		184,608	198,058
Available-for-sale financial assets	4	5,320,869	4,343,602
Prepayments, deposits and other assets		<u>3,877,451</u>	<u>2,282,869</u>
		<b><u>25,818,929</u></b>	<b><u>21,300,877</u></b>
<b>Current assets</b>			
Inventories		202,106	—
Accounts receivable	5	2,500,207	2,020,796
Prepayments, deposits and other assets		3,275,968	2,211,917
Term deposits with initial term of over three months		17,014,730	13,716,040
Restricted cash		2,317,431	4,942,595
Cash and cash equivalents		<u>10,602,451</u>	<u>12,612,140</u>
		<b><u>35,912,893</u></b>	<b><u>35,503,488</u></b>
<b>Total assets</b>		<b><u>61,731,822</u></b>	<b><u>56,804,365</u></b>

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2012</b>	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital		198	198
Share premium		2,488,779	2,058,051
Shares held for share award scheme		(609,657)	(606,874)
Other reserves		532,264	302,091
Retained earnings		<u>31,652,090</u>	<u>26,710,368</u>
		<b>34,063,674</b>	28,463,834
<b>Non-controlling interests</b>		<u>650,698</u>	<u>624,510</u>
<b>Total equity</b>		<u>34,714,372</u>	<u>29,088,344</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	9	948,735	—
Long-term notes payable	8	3,751,839	3,733,331
Deferred income tax liabilities		893,822	939,534
Long-term payables		<u>1,441,920</u>	<u>1,859,808</u>
		<u>7,036,316</u>	<u>6,532,673</u>
<b>Current liabilities</b>			
Accounts payable	7	3,368,438	2,244,114
Other payables and accruals		4,872,613	5,014,281
Derivative financial instruments		14,680	20,993
Borrowings	9	3,609,323	7,999,440
Current income tax liabilities		998,523	708,725
Other tax liabilities		256,781	179,499
Deferred revenue		<u>6,860,776</u>	<u>5,016,296</u>
		<u>19,981,134</u>	<u>21,183,348</u>
<b>Total liabilities</b>		<u>27,017,450</u>	<u>27,716,021</u>
<b>Total equity and liabilities</b>		<u>61,731,822</u>	<u>56,804,365</u>
<b>Net current assets</b>		<u>15,931,759</u>	<u>14,320,140</u>
<b>Total assets less current liabilities</b>		<u>41,750,688</u>	<u>35,621,017</u>

**CONSOLIDATED INCOME STATEMENT  
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2012**

	<i>Note</i>	Unaudited		Unaudited	
		Three months ended		Six months ended	
		30 June		30 June	
		2012	2011	2012	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenues</b>					
Internet value-added services		<b>7,786,625</b>	5,386,578	<b>15,168,246</b>	10,637,860
Mobile and telecommunications value-added services		<b>929,007</b>	793,839	<b>1,842,849</b>	1,571,631
Online advertising		<b>879,691</b>	512,312	<b>1,419,804</b>	793,206
e-Commerce transactions		<b>857,526</b>	—	<b>1,610,343</b>	—
Others		<b>74,395</b>	46,315	<b>133,860</b>	74,767
		<b>10,527,244</b>	6,739,044	<b>20,175,102</b>	13,077,464
Cost of revenues	11	<b>(4,311,379)</b>	(2,331,637)	<b>(8,147,696)</b>	(4,525,366)
<b>Gross profit</b>		<b>6,215,865</b>	4,407,407	<b>12,027,406</b>	8,552,098
Interest income		<b>196,806</b>	106,546	<b>363,539</b>	207,208
Other (losses)/gains, net	10	<b>(3,219)</b>	2,809	<b>(66,861)</b>	341,878
Selling and marketing expenses	11	<b>(609,672)</b>	(369,491)	<b>(1,078,872)</b>	(669,944)
General and administrative expenses	11	<b>(1,862,165)</b>	(1,363,372)	<b>(3,616,239)</b>	(2,260,838)
<b>Operating profit</b>		<b>3,937,615</b>	2,783,899	<b>7,628,973</b>	6,170,402
Finance (costs)/income, net		<b>(115,256)</b>	1,771	<b>(185,238)</b>	(2,098)
Share of profit/(losses) of associates		<b>5,411</b>	23,454	<b>(4,342)</b>	61,308
Share of losses of jointly controlled entities		<b>(9,375)</b>	(60,689)	<b>(7,995)</b>	(64,986)
<b>Profit before income tax</b>		<b>3,818,395</b>	2,748,435	<b>7,431,398</b>	6,164,626
Income tax expense	12	<b>(707,824)</b>	(405,163)	<b>(1,358,497)</b>	(937,146)
<b>Profit for the period</b>		<b><u>3,110,571</u></b>	<u>2,343,272</u>	<b><u>6,072,901</u></b>	<u>5,227,480</u>

		Unaudited		Unaudited		
		Three months ended		Six months ended		
		30 June		30 June		
		2012	2011	2012	2011	
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Attributable to:</b>						
	Equity holders of the Company	<b>3,100,075</b>	2,349,246	<b>6,049,585</b>	5,219,620	
	Non-controlling interests	<u><b>10,496</b></u>	<u>(5,974)</u>	<u><b>23,316</b></u>	<u>7,860</u>	
		<u><b>3,110,571</b></u>	<u>2,343,272</u>	<u><b>6,072,901</b></u>	<u>5,227,480</u>	
<b>Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)</b>						
	- basic	13	<u><b>1.698</b></u>	<u>1.289</u>	<u><b>3.316</b></u>	<u>2.863</u>
	- diluted	13	<u><b>1.665</b></u>	<u>1.260</u>	<u><b>3.252</b></u>	<u>2.800</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2012**

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the period</b>	<b><u>3,110,571</u></b>	<u>2,343,272</u>	<b><u>6,072,901</u></b>	<u>5,227,480</u>
<b>Other comprehensive income, net of tax:</b>				
Net (losses)/gains from changes in fair value of available-for-sale financial assets	<b>(530,203)</b>	264,280	<b>758,711</b>	(418,156)
Currency translation differences	<b><u>7,743</u></b>	<u>(74)</u>	<b><u>13,819</u></b>	<u>133</u>
	<b><u>(522,460)</u></b>	<u>264,206</u>	<b><u>772,530</u></b>	<u>(418,023)</u>
<b>Total comprehensive income for the period</b>	<b><u><u>2,588,111</u></u></b>	<u><u>2,607,478</u></u>	<b><u><u>6,845,431</u></u></b>	<u><u>4,809,457</u></u>
<b>Attributable to:</b>				
Equity holders of the Company	<b>2,576,886</b>	2,613,452	<b>6,821,375</b>	4,801,597
Non-controlling interests	<b><u>11,225</u></b>	<u>(5,974)</u>	<b><u>24,056</u></b>	<u>7,860</u>
	<b><u><u>2,588,111</u></u></b>	<u><u>2,607,478</u></u>	<b><u><u>6,845,431</u></u></b>	<u><u>4,809,457</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award scheme	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2012</b>	<u>198</u>	<u>2,058,051</u>	<u>(606,874)</u>	<u>302,091</u>	<u>26,710,368</u>	<u>28,463,834</u>	<u>624,510</u>	<u>29,088,344</u>
<b>Comprehensive income</b>								
Profit for the period	-	-	-	-	6,049,585	6,049,585	23,316	6,072,901
Other comprehensive income:								
- net gains from changes in fair value of available-for-sale financial assets	-	-	-	758,711	-	758,711	-	758,711
- currency translation differences	-	-	-	13,079	-	13,079	740	13,819
<b>Total comprehensive income for the period</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>771,790</u>	<u>6,049,585</u>	<u>6,821,375</u>	<u>24,056</u>	<u>6,845,431</u>
<b>Transaction with owners</b>								
Capital injection	-	-	-	-	-	-	7,220	7,220
Employee share option schemes:								
- value of employee services	-	55,669	-	34,432	-	90,101	18,182	108,283
- proceeds from shares issued	-	113,640	-	-	-	113,640	-	113,640
Employee share award scheme:								
- value of employee services	-	295,814	-	25,792	-	321,606	4,415	326,021
- shares purchased for share award scheme	-	-	(16,946)	-	-	(16,946)	-	(16,946)
- vesting of awarded shares	-	(14,163)	14,163	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	(26)	26	-	-	-
Repurchase and cancellation of shares	-	(20,232)	-	-	-	(20,232)	-	(20,232)
Dividend	-	-	-	-	(1,107,889)	(1,107,889)	(18,180)	(1,126,069)
Total contributions by and distributions to owners for the period	<u>-</u>	<u>430,728</u>	<u>(2,783)</u>	<u>60,198</u>	<u>(1,107,863)</u>	<u>(619,720)</u>	<u>11,637</u>	<u>(608,083)</u>
Non-controlling interests arising from business combinations	-	-	-	-	-	-	(2,455)	(2,455)
Acquisition of an additional equity interest in non-wholly owned subsidiaries	-	-	-	(244,197)	-	(244,197)	(7,050)	(251,247)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	-	-	-	(357,618)	-	(357,618)	-	(357,618)
<b>Total transactions with owners for the period</b>	<u>-</u>	<u>430,728</u>	<u>(2,783)</u>	<u>(541,617)</u>	<u>(1,107,863)</u>	<u>(1,221,535)</u>	<u>2,132</u>	<u>(1,219,403)</u>
<b>Balance at 30 June 2012</b>	<u><u>198</u></u>	<u><u>2,488,779</u></u>	<u><u>(609,657)</u></u>	<u><u>532,264</u></u>	<u><u>31,652,090</u></u>	<u><u>34,063,674</u></u>	<u><u>650,698</u></u>	<u><u>34,714,372</u></u>

Unaudited								
Attributable to equity holders of the Company								
	Share capital	Share premium	Shares held for share award scheme	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2011</b>	<u>198</u>	<u>2,299,965</u>	<u>(258,137)</u>	<u>1,919,695</u>	<u>17,795,225</u>	<u>21,756,946</u>	<u>83,912</u>	<u>21,840,858</u>
<b>Comprehensive income</b>								
Profit for the period	—	—	—	—	5,219,620	5,219,620	7,860	5,227,480
Other comprehensive income:								
- net losses from changes in fair value of available-for-sale financial assets	—	—	—	(418,156)	—	(418,156)	—	(418,156)
- currency translation differences	—	—	—	133	—	133	—	133
<b>Total comprehensive income for the period</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(418,023)</u>	<u>5,219,620</u>	<u>4,801,597</u>	<u>7,860</u>	<u>4,809,457</u>
<b>Transaction with owners</b>								
Employee share option schemes:								
- value of employee services	—	93,102	—	—	—	93,102	—	93,102
- proceeds from shares issued	—	80,689	—	—	—	80,689	—	80,689
Employee share award scheme:								
- value of employee services	—	242,477	—	—	—	242,477	—	242,477
- shares purchased for share award scheme	—	—	(247,777)	—	—	(247,777)	—	(247,777)
- vesting of awarded shares	—	(29,574)	29,574	—	—	—	—	—
Repurchase and cancellation of shares	—	(97,586)	—	—	—	(97,586)	—	(97,586)
Dividends	—	—	—	—	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	—	—	—	10,000	(10,000)	—	—	—
Total contributions by and distributions to owners for the period	—	289,108	(218,203)	10,000	(848,290)	(767,385)	(56,531)	(823,916)
Non-controlling interests arising from business combination	—	—	—	—	—	—	187,092	187,092
Recognition of the financial liabilities in respect of the put option granted to non-controlling interests	—	—	—	(670,985)	—	(670,985)	—	(670,985)
<b>Total transactions with owners for the period</b>	<u>—</u>	<u>289,108</u>	<u>(218,203)</u>	<u>(660,985)</u>	<u>(848,290)</u>	<u>(1,438,370)</u>	<u>130,561</u>	<u>(1,307,809)</u>
<b>Balance at 30 June 2011</b>	<u>198</u>	<u>2,589,073</u>	<u>(476,340)</u>	<u>840,687</u>	<u>22,166,555</u>	<u>25,120,173</u>	<u>222,333</u>	<u>25,342,506</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	<b>Unaudited Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Net cash flows generated from operating activities</b>	<b>8,945,857</b>	5,434,115
<b>Net cash flows used in investing activities</b>	<b>(6,455,778)</b>	(9,547,558)
<b>Net cash flows (used in)/generated from financing activities</b>	<b><u>(4,506,408)</u></b>	<u>1,741,476</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,016,329)</b>	(2,371,967)
Cash and cash equivalents at beginning of period	<b>12,612,140</b>	10,408,257
Exchange gains/(losses) on cash and cash equivalents	<b><u>6,640</u></b>	<u>(73,200)</u>
<b>Cash and cash equivalents at end of period</b>	<b><u><u>10,602,451</u></u></b>	<u><u>7,963,090</u></u>
<b>Analysis of balances of cash and cash equivalents:</b>		
Bank balances and cash	<b>6,699,446</b>	6,381,618
Term deposits and highly liquid investments with initial term within three months	<b><u>3,903,005</u></b>	<u>1,581,472</u>
	<b><u><u>10,602,451</u></u></b>	<u><u>7,963,090</u></u>

*Note:*

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

The Company was incorporated in the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange since 16 June 2004.

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

The consolidated statement of financial position as at 30 June 2012, the related consolidated income statement and the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 15 August 2012.

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

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2011 as set out in the 2011 annual report of the Company dated 14 March 2012 (the “2011 Financial Statements”).

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 2011 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

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

The new or revised standards and amendments to the existing standards, which are mandatory for the financial year of the Company beginning 1 January 2012, are either not currently relevant or have no impact on the Group’s Interim Financial Information.

Because of the growth in related business during the six months ended 30 June 2012, the Group discloses the following accounting policies which were not included in the principal accounting policies in the 2011 Financial Statements:

- In relation to the sharing income derived from third-party games or applications which are available on the Group’s platforms and hosted by the developers, the Group recognises the related revenue on a net basis because it acts as an agent in the arrangement. The Group defers the related revenue over an estimated period as there is an implicit obligation of the Group to maintain and allow access of the users of the games or applications through its platforms.

- In relation to the e-Commerce transactions business, the Group recognises revenues from product sales transaction and related costs on a gross basis when it acts as a principal. In transactions where the Group acts as an agent, revenues are recognised on a net basis based on a pre-determined percentage. Whether the Group acts as a principal or an agent in a transaction is determined based on several criteria, including whether it is a primary obligor, whether it is subject to inventory risk, and whether it has latitude in establishing price and selecting suppliers.

## **2 Segment information**

During the three and six months ended 30 June 2012, the scale of e-Commerce transactions business of the Group increased significantly and the executive directors of the Company treated e-Commerce transactions business as a separate segment of the Group's operations. As a result, a new line of segment information has been presented since 1 January 2012. No comparative figure of the comparative quarters of 2011 is presented since the amount involved was insignificant.

The Group has following reportable segments for the three and six months ended 30 June 2012:

- IVAS;
- MVAS;
- Online advertising;
- e-Commerce transactions; and
- Others.

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

There were no material inter-segment sales during the three and six months ended 30 June 2012 and 2011. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three and six months ended 30 June 2012 and 2011 is as follows:

	Unaudited					
	Three months ended 30 June 2012					
			Online e-Commerce			
	IVAS	MVAS	advertising	transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>7,786,625</u>	<u>929,007</u>	<u>879,691</u>	<u>857,526</u>	<u>74,395</u>	<u>10,527,244</u>
Gross profit	<u>5,141,251</u>	<u>570,072</u>	<u>458,403</u>	<u>21,521</u>	<u>24,618</u>	<u>6,215,865</u>
Depreciation	263,625	26,350	24,899	1,940	4,397	321,211
Amortisation	48,315	—	44,756	—	—	93,071
Share of profit/(losses) of associates	7,358	527	—	(8,338)	5,864	5,411
Share of losses of jointly controlled entities	<u>(9,375)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(9,375)</u>

	Unaudited					
	Three months ended 30 June 2011					
			Online			
	IVAS	MVAS	advertising	Others	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Segment revenues	<u>5,386,578</u>	<u>793,839</u>	<u>512,312</u>	<u>46,315</u>	<u>6,739,044</u>	
Gross profit/(losses)	<u>3,598,338</u>	<u>471,385</u>	<u>343,688</u>	<u>(6,004)</u>	<u>4,407,407</u>	
Depreciation	166,973	14,134	13,487	7,559	202,153	
Amortisation	10,585	—	—	—	10,585	
Share of profit/(losses) of associates	25,158	(1,704)	—	—	23,454	
Share of losses of jointly controlled entities	<u>(60,689)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(60,689)</u>	

Unaudited						
Six months ended 30 June 2012						
	IVAS	MVAS	Online advertising	e-Commerce transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>15,168,246</u>	<u>1,842,849</u>	<u>1,419,804</u>	<u>1,610,343</u>	<u>133,860</u>	<u>20,175,102</u>
Gross profit	<u>10,114,049</u>	<u>1,145,075</u>	<u>682,333</u>	<u>42,287</u>	<u>43,662</u>	<u>12,027,406</u>
Depreciation	511,545	52,124	48,633	3,697	8,680	624,679
Amortisation	90,206	—	85,577	—	—	175,783
Share of profit/(losses) of associates	6,698	(4,128)	—	(20,100)	13,188	(4,342)
Share of losses of jointly controlled entities	<u>(7,995)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(7,995)</u>

Unaudited					
Six months ended 30 June 2011					
	IVAS	MVAS	Online advertising	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>10,637,860</u>	<u>1,571,631</u>	<u>793,206</u>	<u>74,767</u>	<u>13,077,464</u>
Gross profit/(losses)	<u>7,107,472</u>	<u>951,677</u>	<u>506,478</u>	<u>(13,529)</u>	<u>8,552,098</u>
Depreciation	300,905	25,312	24,106	12,008	362,331
Amortisation	13,597	—	—	—	13,597
Share of profit/(losses) of associates	62,300	(992)	—	—	61,308
Share of losses of jointly controlled entities	<u>(64,986)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(64,986)</u>

### 3 Interests in associates

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of period	<b>4,338,075</b>	1,070,633
Additions ((a), (b) and (c))	<b>1,017,698</b>	1,789,296
Transfer from available-for-sale financial assets	<b>31,139</b>	—
Transfer out as a result of step-up business combination	—	(117,502)
Share of (losses)/profit of associates	<b>(4,342)</b>	61,308
Dividends received from associates	<b>(21,748)</b>	(20,000)
Disposal of an associate	<b>(68,263)</b>	—
	<b><u>5,292,559</u></b>	<b><u>2,783,735</u></b>
At end of period	<b><u>5,292,559</u></b>	<b><u>2,783,735</u></b>

*Note:*

- (a) On 31 January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited (“ChinaVision”), representing approximately 8% of its total outstanding shares, for a cash consideration of HKD247,760,000. ChinaVision is a company listed on the Main Board of the Stock Exchange, and principally engaged in production and licensing of film and television programmes, and printed media and television advertising businesses. Since the Group has the right to nominate a director to the board of ChinaVision, the investment in ChinaVision is accounted for as an investment in associate of the Group.
- (b) In April 2012, the Group acquired 3,600,000 preference shares of Kakao Corp. (“Kakao”), a company principally engaged in developing and operating mobile chat applications, representing approximately 13.84% of its issued share capital, for a cash consideration of KRW72,000,000,000. Since the Group has significant influence in Kakao through its representative of the board, the investment in Kakao is accounted for as an investment in associate of the Group.
- (c) In addition to the above, the Group acquired some other associates for an aggregate consideration of RMB221,843,000 during the six months ended 30 June 2012. They are principally engaged in online community service, online game development and other Internet related businesses. The group also made additional investments in existing investees for an aggregate consideration of RMB193,224,000 during the six months ended 30 June 2012. They are principally engaged in web game development.

#### 4 Available-for-sale financial assets

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
At beginning of period	<b>4,343,602</b>	4,126,878
Additions	<b>252,063</b>	953,535
Transfer to interests in associates	<b>(31,139)</b>	—
Gains/(losses) from changes in fair value	<b><u>756,343</u></b>	<u>(424,846)</u>
At end of period	<b><u>5,320,869</u></b>	<u>4,655,567</u>
Market value of listed securities	<b><u>4,075,137</u></b>	<u>3,889,122</u>

#### 5 Accounts receivable

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 - 30 days	<b>1,502,110</b>	1,103,261
31 - 60 days	<b>363,831</b>	443,555
61 - 90 days	<b>324,424</b>	246,501
Over 90 days	<b><u>309,842</u></b>	<u>227,479</u>
	<b><u>2,500,207</u></b>	<u>2,020,796</u>

Receivable balances as at 30 June 2012 mainly represented amounts due from telecommunication operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as online advertising customers mainly located in the PRC.

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

## **6 Share option and share award schemes**

### **(a) Share option schemes**

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

#### **(i) Pre-IPO Option Scheme**

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

#### **(ii) Post-IPO Option Scheme I**

Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Option Scheme II.

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

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

#### **(iv) Post-IPO Option Scheme III**

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

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	-	-	-	-	HKD194.4000	312,550	-	-	312,550
Exercised	USD0.0709	(464,420)	HKD12.7643	(1,866,215)	HKD43.6137	(1,650,078)	-	-	(3,980,713)
Lapsed	-	-	HKD4.4850	(33)	HKD58.0532	(96,556)	-	-	(96,589)
At 30 June 2011	USD0.1998	<u>98,773</u>	HKD12.8739	<u>10,939,515</u>	HKD57.2042	<u>27,361,084</u>	HKD158.5000	<u>1,000,000</u>	<u>39,399,372</u>
Exercisable as at 30 June 2011	USD0.1998	<u>98,773</u>	HKD11.6643	<u>9,671,095</u>	HKD41.1057	<u>7,512,924</u>	-	<u>-</u>	<u>17,282,792</u>
At 1 January 2012	-	-	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Exercised	-	-	HKD15.6453	(2,026,139)	HKD45.0567	(2,404,389)	-	-	(4,430,528)
Lapsed	-	-	HKD8.1734	(157)	HKD47.3139	(85,024)	-	-	(85,181)
At 30 June 2012	-	<u>-</u>	HKD11.4071	<u>6,735,641</u>	HKD61.5267	<u>23,666,675</u>	HKD158.5000	<u>1,000,000</u>	<u>31,402,316</u>
Exercisable as at 30 June 2012	-	<u>-</u>	HKD11.1559	<u>6,615,641</u>	HKD40.8706	<u>9,526,152</u>	-	<u>-</u>	<u>16,141,793</u>

During the six months ended 30 June 2012, no share option (during the six months ended 30 June 2011: Nil) was granted to any directors of the Company.

(b) **Share award scheme**

The Company has adopted the Share Award Scheme, which is managed by the Trustee. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the six months ended 30 June 2012 and 2011 are as follows:

	<b>Number of shares held for the Share Award Scheme</b>	<b>Number of awarded shares</b>
At 1 January 2011	80	13,562,734
Purchased for award	1,437,320	—
Shares to be allotted to the Share Award Scheme	535,170	—
Granted	(1,972,570)	1,972,570
Vested and exercised	<u>—</u>	<u>(238,616)</u>
At 30 June 2011	<u>—</u>	<u>15,296,688</u>
Exercisable as at 30 June 2011		<u>72,117</u>
<b>At 1 January 2012</b>	<b>1,970,840</b>	<b>15,838,999</b>
Purchased and withheld for award	107,981	—
Granted	(759,400)	759,400
Lapsed	321,925	(321,925)
Vested and exercised	<u>—</u>	<u>(499,528)</u>
<b>At 30 June 2012</b>	<b><u>1,641,346</u></b>	<b><u>15,776,946</u></b>
<b>Exercisable as at 30 June 2012</b>		<b><u>3,005</u></b>

During the six months ended 30 June 2012, no awarded share (during the six months ended 30 June 2011: 35,000) was granted to any directors of the Company.

## 7 Accounts payable

Accounts payable and their ageing analysis are as follows:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
0 - 30 days	<b>2,169,560</b>	1,514,155
31 - 60 days	<b>962,739</b>	351,587
61 - 90 days	<b>54,185</b>	108,337
Over 90 days	<b><u>181,954</u></b>	<u>270,035</u>
	<b><u>3,368,438</u></b>	<u>2,244,114</u>

## 8 Long-term notes payable

On 12 December 2011, the Company issued long-term notes (the “Notes”) with an initial aggregate principal amount of USD600,000,000 for general corporate purposes. The Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

As at 30 June 2012, the carrying amount of the Notes was RMB3,751,839,000.

## 9 Borrowings

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
<i>Included in non-current liabilities:</i>		
USD bank borrowing		
- Unsecured (a)	<u>948,735</u>	<u>—</u>
<i>Included in current liabilities:</i>		
RMB bank borrowings		
- Secured (b)	320,375	2,958,720
USD bank borrowings		
- Unsecured (c)	3,288,948	4,410,630
Bonds		
- Unsecured	<u>—</u>	<u>630,090</u>
	<u>3,609,323</u>	<u>7,999,440</u>
	<u>4,558,058</u>	<u>7,999,440</u>

Movement in the borrowings is analysed as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of period	7,999,440	5,298,947
Additions of bank borrowings	1,893,240	4,778,230
Issuance of bonds	—	657,520
Repayments of bonds	(629,190)	—
Repayments of bank borrowings	(4,729,060)	(2,493,119)
Exchange difference	<u>23,628</u>	<u>(91,513)</u>
At end of period	<u>4,558,058</u>	<u>8,150,065</u>

*Note:*

- (a) Unsecured long-term bank borrowing of carrying amount of RMB948,735,000 as at 30 June 2012 was denominated in USD. The aggregate principal amount was USD150,000,000 with the interest rate of LIBOR plus 2.44% per annum. Such bank borrowing shall be prepaid by installments.
- (b) Bank borrowings of carrying amounts of RMB320,375,000 were secured by pledge of bank deposits of RMB324,347,000.
- (c) Unsecured bank borrowings of carrying amount of RMB3,288,948,000 as at 30 June 2012 were denominated in USD. The aggregate principal amount was USD520,000,000 with the interest rates of LIBOR plus 0.85% to 1.75% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling some of the bank borrowings with an aggregate principal amount of USD45,000,000 upon the respective borrowing due dates. The Group did not adopt hedge accounting. As a result, these bank borrowings and the relevant foreign exchange forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other (losses)/gains, net” in the consolidated income statement.

## 10 Other (losses)/gains, net

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gains on disposal/deemed disposal of associates	—	—	<b>11,543</b>	459,037
Government subsidies	<b>13,258</b>	9,699	<b>32,836</b>	14,988
Gains/(losses) from derivative financial instruments	<b>18</b>	(23,495)	<b>(19,842)</b>	(44,869)
Donation to Tencent Charity Fund	—	—	<b>(60,000)</b>	(100,000)
Others	<b>(16,495)</b>	<u>16,605</u>	<b>(31,398)</b>	<u>12,722</u>
	<b><u>(3,219)</u></b>	<u>2,809</u>	<b><u>(66,861)</u></b>	<u>341,878</u>

## 11 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses ( <i>Note</i> )	<b>1,908,491</b>	1,249,702	<b>3,597,857</b>	2,209,952
Content costs and agency fees	<b>1,697,518</b>	1,103,048	<b>3,140,491</b>	2,236,777
Mobile and telecom charges and bandwidth and server custody fees	<b>817,869</b>	620,745	<b>1,593,286</b>	1,212,068
Cost of merchandise sold	<b>810,273</b>	—	<b>1,524,365</b>	—
Depreciation of fixed assets ( <i>Note</i> )	<b>444,716</b>	273,999	<b>868,772</b>	494,544
Promotion and advertising expenses	<b>386,383</b>	240,817	<b>663,444</b>	447,004
Amortisation of intangible assets	<b>142,464</b>	222,651	<b>384,574</b>	275,861
Operating lease rentals in respect of office buildings	<b>145,827</b>	80,339	<b>288,674</b>	139,350
Travelling and entertainment expenses	<b>73,669</b>	48,380	<b>131,113</b>	77,549
Other expenses	<b><u>356,006</u></b>	<u>224,819</u>	<b><u>650,231</u></b>	<u>363,043</u>
	<b><u>6,783,216</u></b>	<u>4,064,500</u>	<b><u>12,842,807</u></b>	<u>7,456,148</u>

### *Note:*

Research and development expenses for the three and six months ended 30 June 2012 were RMB1,042,440,000 and RMB1,983,203,000, respectively (for the three and six months ended 30 June 2011: RMB671,791,000 and RMB1,184,978,000, respectively) which included employee benefit expenses of RMB842,449,000 and depreciation of fixed assets of RMB109,412,000 for the three months ended 30 June 2012 (for the three months ended 30 June 2011: RMB582,534,000 and RMB63,088,000, respectively) and employee benefit expenses of RMB1,617,522,000 and depreciation of fixed assets of RMB217,176,000 for the six months ended 30 June 2012 (for the six months ended 30 June 2011: RMB1,022,103,000 and RMB116,291,000, respectively). No research and development expenses were capitalised as at 30 June 2012.

## 12 Income tax expense

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

### (a) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in the Cayman Islands and British Virgin Islands for the three and six months ended 30 June 2012 and 2011.

### (b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three and six months ended 30 June 2012. No such provision was provided for the three and six months ended 30 June 2011.

### (c) PRC CIT

CIT provision was made on the assessable profits of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

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

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

In 2011, certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law.

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

(d) **United States corporate income tax**

United States corporate income tax provision was provided during the three and six months ended 30 June 2012 for the entities within the Group which were incorporated in the United States. No such provision was provided for the three and six months ended 30 June 2011.

(e) **PRC withholding tax**

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

The income tax expense of the Group for the three and six months ended 30 June 2012 and 2011 are analysed as follows:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Current tax	<b>631,810</b>	432,561	<b>1,236,965</b>	860,235
Deferred tax	<b><u>76,014</u></b>	<u>(27,398)</u>	<b><u>121,532</u></b>	<u>76,911</u>
	<b><u>707,824</u></b>	<u>405,163</u>	<b><u>1,358,497</u></b>	<u>937,146</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three and six months ended 30 June 2012 (for the three and six months ended 30 June 2011: 24%), being the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<b>3,818,395</b>	2,748,435	<b>7,431,398</b>	6,164,626
Add: Share of losses/(profit) of associates and jointly controlled entities	<u><b>3,964</b></u>	<u>37,235</u>	<u><b>12,337</b></u>	<u>3,678</u>
	<b><u>3,822,359</u></b>	<b><u>2,785,670</u></b>	<b><u>7,443,735</u></b>	<b><u>6,168,304</u></b>
Tax calculated at a tax rate of 25% (for the three and six months ended 30 June 2011: 24%)	<b>955,590</b>	668,561	<b>1,860,934</b>	1,480,393
Effects of different tax rates applicable to different subsidiaries	<b>(308,254)</b>	(227,458)	<b>(672,381)</b>	(533,220)
Effects of tax holiday on assessable profit of subsidiaries	<b>(67,650)</b>	(125,882)	<b>(135,057)</b>	(249,576)
Income not subject to tax	<b>(27,478)</b>	(1,900)	<b>(46,456)</b>	(11,663)
Expenses not deductible for tax purposes	<b>60,843</b>	79,318	<b>120,092</b>	113,879
Withholding tax on earnings expected to be remitted by PRC subsidiaries	<b>78,603</b>	50,000	<b>171,603</b>	141,500
Unrecognised deferred income tax assets	<b>29,588</b>	22,019	<b>73,180</b>	55,328
Adjustments in respect of CIT filing	<u><b>(13,418)</b></u>	<u>(59,495)</u>	<u><b>(13,418)</b></u>	<u>(59,495)</u>
Income tax expense	<b><u>707,824</u></b>	<b><u>405,163</u></b>	<b><u>1,358,497</u></b>	<b><u>937,146</u></b>

## 13 EPS

### (a) Basic

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

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
Profit attributable to equity holders of the Company for the period (RMB'000)	<u><b>3,100,075</b></u>	<u>2,349,246</u>	<u><b>6,049,585</b></u>	<u>5,219,620</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u><b>1,826,071</b></u>	<u>1,823,051</u>	<u><b>1,824,501</b></u>	<u>1,822,866</u>
Basic EPS (RMB per share)	<u><u><b>1.698</b></u></u>	<u><u>1.289</u></u>	<u><u><b>3.316</b></u></u>	<u><u>2.863</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).

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three and six months ended 30 June 2012, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
Profit attributable to equity holders of the Company for the period (RMB'000)	<u>3,100,075</u>	<u>2,349,246</u>	<u>6,049,585</u>	<u>5,219,620</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,826,071</u>	1,823,051	<u>1,824,501</u>	1,822,866
Adjustments for share options (thousand shares)	<u>23,766</u>	30,626	<u>24,406</u>	31,160
Adjustments for awarded shares (thousand shares)	<u>11,496</u>	<u>10,160</u>	<u>11,515</u>	<u>10,061</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,861,333</u>	<u>1,863,837</u>	<u>1,860,422</u>	<u>1,864,087</u>
Diluted EPS (RMB per share)	<u>1.665</u>	<u>1.260</u>	<u>3.252</u>	<u>2.800</u>

## 14 Dividend

A final dividend in respect of the year ended 31 December 2011 of HKD0.75 per share (2010: HKD0.55 per share) was proposed pursuant to a resolution passed by the Board on 14 March 2012 and approved by shareholders at the 2012 AGM. Such dividend, amounted to HKD1,369,117,000 (equivalent to approximately RMB1,107,889,000) (final dividend for 2010: HKD1,010,294,000 (equivalent to approximately RMB838,290,000)), had been paid as at 30 June 2012.

The Board did not propose any interim dividend for the six months ended 30 June 2012 (for the six months ended 30 June 2011: Nil).

## 15 Subsequent events

- (a) In July 2012, the Group purchased 49% issued share capital of Level Up! International Holdings Pte. Ltd. (“Level Up”) from a related party (the “Level Up Acquisition”). In addition, the Group has an option to acquire, within a two-year period after closing, certain additional number of shares in Level Up that, together with the shares acquired in the Level Up Acquisition, will represent 67% of the issued share capital of Level Up as at the date when the option is fully exercised. Level Up is principally engaged in online game publishing and game magazine publication. As of the date of this report, the Group is in the process of assessing and quantifying the fair value of the net identifiable assets acquired and not in a position to complete its initial accounting because of time constraint.
- (b) In May 2012, the Group entered into sales and purchase agreement, pursuant to which, the Group agreed to purchase certain equity interest of Epic Games, Inc. (“Epic”). This acquisition was completed in July 2012. Epic is principally engaged in developing game engine technology, as well as game titles for PC, console and mobile devices. Upon completion of the acquisition, Epic has been accounted for as an associate of the Group.

## OTHER INFORMATION

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

During the six months ended 30 June 2012, the Company repurchased 154,400 shares on the Stock Exchange for an aggregate consideration of approximately HKD25 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in the six months ended 30 June 2012	No. of shares purchased	Purchase consideration per share		Aggregate consideration paid HKD
		Highest price paid HKD	Lowest price paid HKD	
January	128,400	153.0	151.9	19,582,798
May	<u>26,000</u>	205.0	204.4	<u>5,326,269</u>
Total	<u>154,400</u>			<u>24,909,067</u>

Save as disclosed above, 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 2012.

### Employee and Remuneration Policies

As at 30 June 2012, the Group had 20,000 employees (30 June 2011: 12,904). The number of employees employed by the Group varies from time to time depending on needs and employees 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 programs, 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 six months ended 30 June 2012 was RMB3,598 million (for the six months ended 30 June 2011: RMB2,214 million).

## **Audit Committee**

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2012.

## **Compliance with the Corporate Governance Code**

Code provision A.4.2 of the CG Code provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation, provided that the chairman of the Board shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. In compliance with the provisions in the Articles of Association, at the 2012 AGM, two directors retired and were re-elected and the re-election of Mr Ian Charles Stone, who was re-elected in 2009, was not considered at the 2012 AGM and his re-election will be considered at subsequent annual general meeting. Code provision A.4.2 regarding the retirement of director by rotation at least once every three years was deviated.

The Board considered that the continuing compliance with the existing provision of retirement and re-election of director in the Articles of Association, which have been in operation for several years, shall not have a material impact on the operation of the Company as a whole. Notwithstanding the above, the Board will review the current provisions in the Articles of Association from time to time and shall make necessary amendments at the appropriate time.

Save as disclosed above and those disclosed in the 2011 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 30 June 2012.

As to the deviation from code provisions A.2.1 and A.4.2 of the CG Code, 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

With our employees' and management's unwavering dedication, we have successfully better served our user community. The Board would like to take this opportunity to thank them, as well as the shareholders and stakeholders of the Company, for their continuous support, contribution and commitment going forward.

By Order of the Board  
**Ma Huateng**  
Chairman

Hong Kong, 15 August 2012

*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 Director:*

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 realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.*

## Definitions

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

<b>Term</b>	<b>Definition</b>
“2012 AGM”	the annual general meeting of the Company held on 16 May 2012
“Articles of Association”	the articles of association of the Company
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 to the Listing Rules
“China Mobile”	China Mobile Communications Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Telecommunications Co. Ltd.
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“DNF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles

“GMV”	gross merchandise volume
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“IPO”	initial public offering
“IVAS”	Internet value-added services
“LIBOR”	London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the main board of the Stock Exchange
“MAU”	Monthly active user accounts
“MVAS”	mobile and telecommunications value-added services
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001

“Riot Games”	Riot Games, Inc.
“Riot Games Acquisition”	the acquisition of a majority interest in Riot Games by the Group from the existing shareholders, including the founders of Riot Games
“RMB”	the lawful currency of the PRC
“ROI”	return on investment
“Share Award Scheme”	the share award scheme adopted by the Company on 13 December 2007
“SMS”	short message service
“SNS”	social networking service
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Scheme
“United States”	the United States of America
“USD”	the lawful currency of the United States