

Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

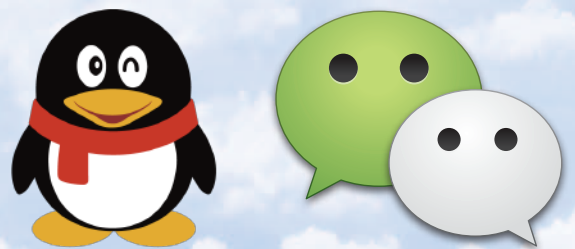
騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號 : 700)



騰訊網
QQ.com



2014

INTERIM REPORT

smart communication inspires

智慧溝通 靈感無限

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Corporate Information

DIRECTORS

Executive Directors

Ma Huateng (*Chairman*)

Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker

Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

AUDIT COMMITTEE

Iain Ferguson Bruce (*Chairman*)

Ian Charles Stone

Charles St Leger Searle

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)

Iain Ferguson Bruce

Ian Charles Stone

INVESTMENT COMMITTEE

Lau Chi Ping Martin (*Chairman*)

Ma Huateng

Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng (*Chairman*)

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Charles St Leger Searle

REMUNERATION COMMITTEE

Ian Charles Stone (*Chairman*)

Li Dong Sheng

Jacobus Petrus (Koos) Bekker

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

TENCENT GROUP HEAD OFFICE

Tencent Building

Kejizhongyi Avenue

Hi-tech Park

Nanshan District

Shenzhen, 518057

The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29/F., Three Pacific Place

No. 1 Queen's Road East

Wanchai

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited

4th Floor, Royal Bank House

24 Shedden Road, George Town

Grand Cayman KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700



Financial Performance Highlights

FIRST HALF OF 2014

	Unaudited Six months ended		Year- on-year change
	30 June 2014	30 June 2013	
	(RMB in millions, unless specified)		
Revenues	38,146	27,932	37%
Gross profit	22,772	15,388	48%
Operating profit	15,633	9,628	62%
Profit for the period	12,258	7,755	58%
Profit attributable to equity holders of the Company	12,293	7,724	59%
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	11,068	8,164	36%
EPS ⁽²⁾ (RMB per share)			
– basic	1.332	0.843	58%
– diluted	1.313	0.828	59%
Non-GAAP EPS ⁽¹⁾⁽²⁾ (RMB per share)			
– basic	1.199	0.891	35%
– diluted	1.182	0.875	35%



Financial Performance Highlights

SECOND QUARTER OF 2014

	30 June 2014	Unaudited Three months ended			Quarter- on-quarter change
		30 June 2013	Year- on-year change	31 March 2014	
		(RMB in millions, unless specified)			
Revenues	19,746	14,384	37%	18,400	7%
Gross profit	12,172	7,794	56%	10,600	15%
Operating profit	7,843	4,565	72%	7,790	1%
Profit for the period	5,826	3,684	58%	6,432	-9%
Profit attributable to equity holders of the Company	5,836	3,680	59%	6,457	-10%
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	5,874	4,126	42%	5,194	13%
EPS ⁽²⁾ (RMB per share)					
– basic	0.632	0.402	57%	0.700	-10%
– diluted	0.623	0.395	58%	0.690	-10%
Non-GAAP EPS ⁽¹⁾⁽²⁾ (RMB per share)					
– basic	0.636	0.451	41%	0.563	13%
– diluted	0.627	0.443	42%	0.555	13%

⁽¹⁾ Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation.

⁽²⁾ EPS was stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.



Chairman's Statement

I am pleased to present our interim report for the three and six months ended 30 June 2014 to the shareholders.

RESULTS

The Group's unaudited profit attributable to equity holders of the Company for the three and six months ended 30 June 2014 increased by 59% and 59% on a year-on-year basis to RMB5,836 million and RMB12,293 million respectively. Basic EPS for the three and six months ended 30 June 2014 were RMB0.632 and RMB1.332 respectively. Diluted EPS for the three and six months ended 30 June 2014 were RMB0.623 and RMB1.313 respectively.

BUSINESS REVIEW AND OUTLOOK

Overall Financial Performance

In the second quarter of 2014, revenues increased by 37% year-on-year to RMB19,746 million.

- *VAS*. Revenues from our VAS business increased by 46% year-on-year to RMB15,713 million. Revenue growth in online game business mainly reflected contributions from smart phone games integrated with Mobile QQ and Weixin, as well as growth in PC client games. Social networks revenues benefited from item sales on mobile platforms, as well as a stabilisation in subscription revenues due to enhanced mobile privileges.
- *Online advertising*. Revenues from our online advertising business increased by 59% year-on-year to RMB2,064 million. This mainly reflected growth in revenues from video advertising and performance-based social advertising, as well as the positive impacts of the FIFA World Cup and our strategic co-operation with JD.com. The increase was partly offset by the transfer of our online search business to Sogou in September 2013.
- *eCommerce transactions*. Revenues from our eCommerce transactions business decreased by 40% year-on-year to RMB1,324 million. This primarily reflected the shift in traffic and the divestment of our eCommerce marketplaces as a result of our strategic transaction with JD.com.

Profit attributable to equity holders of the Company increased by 59% year-on-year to RMB5,836 million. Non-GAAP profit attributable to equity holders of the Company increased by 42% year-on-year to RMB5,874 million.

Net cash balance as at 30 June 2014 decreased sequentially to RMB22,485 million, primarily driven by investments we made in associates, notably JD.com and 58.com, and our final dividend for the year ended 31 December 2013, partly offset by free cash flow generated during the second quarter of 2014.



Chairman's Statement

Strategic Highlights

We continued to enrich our O2O ecosystem by making strategic investments in and partnering with classified listings company 58.com and map service provider NavInfo. We believe our users will benefit from the expanding range of quality services enabled by our O2O partners, broadening and enhancing their user experiences. We believe merchants and service providers will benefit in areas such as better customer relationship management, improved consumer targeting, enhanced word-of-mouth effect through social referral and more efficient transaction settlement with our mobile payment solutions.

In recent months, a number of our investee companies have become publicly listed as a result of IPOs, including JD.com and Cheetah Mobile. Taking into account these newly-listed investments, together with our investments in already-listed companies such as 58.com, Mail.ru and Kingsoft, the fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB65 billion at the end of the second quarter of 2014.

Divisional and Product Highlights

Operating Information

	As at 30 June 2014	As at 30 June 2013	Year- on-year change	As at 31 March 2014	Quarter- on-quarter change
MAU of QQ	829.3	818.5	1.3%	848.1	-2.2%
Smart device MAU of QQ	520.7	358.8	45.1%	490.2	6.2%
PCU of QQ (for the quarter)	205.5	173.2	18.6%	199.4	3.1%
Combined MAU of Weixin and WeChat	438.2	279.2	56.9%	395.8	10.7%
MAU of Qzone	645.1	626.4	3.0%	644.2	0.1%
Smart device MAU of Qzone	497.0	362.8	37.0%	467.3	6.4%
Fee-based VAS registered subscriptions	88.0	98.7	-10.8%	88.0	0.0%



Chairman's Statement

Key Platforms

In the second quarter of 2014, QQ and Qzone continued to experience significant expansion in mobile user base and enhanced user engagement. For QQ, smart device MAU increased by 45% year-on-year to 521 million at the end of the quarter. We improved the ecosystem on Mobile QQ by connecting with the services of our strategic partners, such as JD.com and Dianping, and upgrading Mobile QQ Wallet, which enables users to purchase virtual goods and settle O2O transactions via their bank cards. We enhanced community activity through new functions such as Interest Tribes and improved the user experience for picture sharing. For Qzone, smart device MAU increased by 37% year-on-year to 497 million at the end of the second quarter of 2014. User engagement and activity improved during the quarter with cross-platform integration and enhanced user experience.

Combined MAU of Weixin and WeChat increased by 57% year-on-year to 438 million at the end of the second quarter of 2014. We enhanced the community and payment functionalities of Weixin, and broadened the breadth and reach of Weixin's service offerings by connecting our core capabilities with those of our strategic partners. For instance, users can now purchase products from JD.com through a direct access point in Weixin and settle the transactions via Weixin Payment, and can search content of Weixin's Official Accounts via Sogou. As for WeChat, we continued to focus on driving user engagement in selected international markets.

In the second quarter of 2014, we enhanced the leadership of our media platforms, in particular by using our social networks to deliver updates in a timely and relevant manner. For the FIFA World Cup, we combined our content strengths with the extensive reach of our leading media platforms across PC and mobile, including Tencent News and Tencent Video, and our highly engaging social platforms. As a result, we leveraged the event to generate not only significant traffic and user interaction, but also healthy contributions to our revenues and profits.



Chairman's Statement

VAS

In the second quarter of 2014, our social networks business expanded further. Item sales on our platforms registered year-on-year growth mainly due to mobile, while the declining trend in our VAS subscription services also showed initial signs of bottoming out. As compared to the previous quarter, total subscription count stabilised and revenues grew moderately, primarily driven by our continued focus on enriching the mobile privileges of our subscription services. QQ Membership and Qzone subscription service achieved sequential revenue growth, while contribution from Super VIP continued to increase.

Our online game business achieved healthy year-on-year growth in the second quarter of 2014. For PC client games, we benefited from contribution of new titles, such as Assault Fire and Blade & Soul, together with the growth of LoL in China and international markets. We will continue to enrich our portfolio of ACGs and MMOGs with new titles in different genres, while introducing expansion packs for our major titles. For mobile games, we built a significant revenue base and established a strong market position in publishing. Total revenues generated from smart phone games integrated with Mobile QQ and Weixin increased sequentially to approximately RMB3 billion for the second quarter of 2014, reflecting growth in our paying user base and ARPU driven by mid-core games and in-game promotions. We were ranked the No. 1 publisher in China's iOS App Store by free downloads and revenue for each of the first seven months of 2014, according to App Annie. Given we have already achieved substantial revenue and profitability from smart phone games in the first half of 2014, we intend to prioritise user engagement, game portfolio expansion and platform enhancement over revenue growth during the second half of this year. Consequently, it is possible that our smart phone game revenues for each of the coming two quarters would be broadly stable as compared to the level for the second quarter of 2014.

Online advertising

In the second quarter of 2014, our advertising business benefited from the growth in video advertising and performance-based social advertising, as well as the positive impacts of the FIFA World Cup and our strategic co-operation with JD.com. During the quarter, we made initial progress in monetising mobile advertising opportunities, capitalising on our significant traffic base across different mobile platforms. For instance, in the second quarter of 2014, we generated meaningful performance-based advertising revenues on Mobile Qzone, and we experimented with performance-based text link advertising on selected Weixin Official Accounts.



Chairman's Statement

eCommerce Transactions

Our eCommerce transaction business has entered a transitional phase subsequent to our strategic transaction with JD.com in March 2014. During the quarter, the business experienced a significant decline in revenues and costs, arising from the traffic shift to JD.com and the divestment of our eCommerce marketplaces as a result of the transaction. We expect the eCommerce segment's revenues and costs to decline further as we continue shifting focus toward supporting our strategic partnership with JD.com, consistent with the new strategy we announced during the first quarter of 2014.

DIVIDEND

The Board did not propose any interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: Nil).

APPRECIATION

On behalf of the Board, I would like to thank our staff and management for their commitment to excellence and remarkable contributions which are fundamental to the Group's continued success and achievement. I would also like to thank our shareholders and stakeholders for their complete confidence and solid support. We will continue to build on our Internet ecosystem for the benefit of our users and the community at large.

Ma Huateng

Chairman

Hong Kong, 13 August 2014



Management Discussion and Analysis

SECOND QUARTER OF 2014 COMPARED TO SECOND QUARTER OF 2013

The following table sets forth the comparative figures for the second quarter of 2014 and the second quarter of 2013:

	Unaudited	
	Three months ended	
	30 June	30 June
	2014	2013
	(RMB in millions)	
Revenues	19,746	14,384
Cost of revenues	(7,574)	(6,590)
Gross profit	12,172	7,794
Interest income	406	324
Other gains, net	691	82
Selling and marketing expenses	(1,973)	(1,234)
General and administrative expenses	(3,453)	(2,401)
Operating profit	7,843	4,565
Finance (costs)/income, net	(354)	14
Share of profit of associates	23	46
Share of losses of joint ventures	–	(15)
Profit before income tax	7,512	4,610
Income tax expense	(1,686)	(926)
Profit for the period	5,826	3,684
Attributable to:		
Equity holders of the Company	5,836	3,680
Non-controlling interests	(10)	4
	5,826	3,684
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	5,874	4,126

⁽¹⁾ Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation.



Management Discussion and Analysis

Revenues. Revenues increased by 37% to RMB19,746 million for the second quarter of 2014 from the second quarter of 2013. The following table sets forth our revenues by line of business for the second quarter of 2014 and the second quarter of 2013:

	Unaudited			
	Three months ended			
	30 June 2014		30 June 2013	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	15,713	80%	10,752	75%
Online advertising	2,064	10%	1,297	9%
eCommerce transactions	1,324	7%	2,199	15%
Others	645	3%	136	1%
Total revenues	19,746	100%	14,384	100%

- Revenues from our VAS business increased by 46% to RMB15,713 million for the second quarter of 2014 from the second quarter of 2013. Online games revenues increased by 46% to RMB11,081 million. This primarily reflected contributions from smart phone games integrated with Mobile QQ and Weixin, as well as increased revenues from PC client games driven by new titles, such as Assault Fire and Blade & Soul, and LoL in China and international markets. Social networks revenues increased by 47% to RMB4,632 million. This was mainly driven by item sales on mobile platforms. Subscription revenues were broadly stable as compared to the same period last year.
- Revenues from our online advertising business increased by 59% to RMB2,064 million for the second quarter of 2014 from the second quarter of 2013. This was mainly driven by growth in revenues from video advertising and performance-based social advertising, as well as the positive impacts of the FIFA World Cup and our strategic co-operation with JD.com. The increase was partly offset by the transfer of our online search business to Sogou in September 2013.
- Revenues from our eCommerce transactions business decreased by 40% to RMB1,324 million for the second quarter of 2014 from the second quarter of 2013. This primarily reflected the shift in traffic and the divestment of our eCommerce marketplaces as a result of our strategic transaction with JD.com.



Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 15% to RMB7,574 million for the second quarter of 2014 from the second quarter of 2013. This mainly reflected increases in sharing and content costs, staff costs as well as bandwidth and server custody fees, partly offset by a decline in cost of merchandise sold due to decreased revenues from our eCommerce transactions business. As a percentage of revenues, cost of revenues decreased to 38% for the second quarter of 2014 from 46% for the second quarter of 2013. The following table sets forth our cost of revenues by line of business for the second quarter of 2014 and the second quarter of 2013:

	Unaudited			
	Three months ended			
	30 June 2014		30 June 2013	
	Amount	% of segment revenues	Amount	% of segment revenues
(RMB in millions, unless specified)				
VAS	4,755	30%	3,836	36%
Online advertising	1,140	55%	600	46%
eCommerce transactions	1,416	107%	2,073	94%
Others	263	41%	81	60%
Total cost of revenues	<u>7,574</u>		<u>6,590</u>	

- Cost of revenues for our VAS business increased by 24% to RMB4,755 million for the second quarter of 2014 from the second quarter of 2013. This mainly reflected increases in staff costs, bandwidth and server custody fees as well as sharing and content costs. The growth rate of cost of revenues was lower than that of revenues partially as a result of relatively higher incremental margins on our self-developed smart phone games.
- Cost of revenues for our online advertising business increased by 90% to RMB1,140 million for the second quarter of 2014 from the second quarter of 2013. This primarily reflected an increase in video content cost, for which we have accelerated the amortisation since the fourth quarter of 2013. Commissions payable to advertising agencies also increased.
- Cost of revenues for our eCommerce transactions business decreased by 32% to RMB1,416 million for the second quarter of 2014 from the second quarter of 2013. This was mainly driven by a decline in cost of merchandise sold, which reflected lower revenues from principal eCommerce transactions, partly offset by the recognition of an inventory provision charge in the second quarter of 2014.



Management Discussion and Analysis

Other gains, net. Other gains, net increased significantly to RMB691 million for the second quarter of 2014 from RMB82 million for the second quarter of 2013. This primarily reflected the recognition of deemed disposal gains related to investees mainly resulting from the IPOs of JD.com and Cheetah Mobile, partly offset by the recognition of impairment provision for selected investee companies and a donation made to the Tencent Charity Fund in the second quarter of 2014.

Selling and marketing expenses. Selling and marketing expenses increased by 60% to RMB1,973 million for the second quarter of 2014 from the second quarter of 2013. This was mainly driven by promotional programs for Weixin Payment, as well as higher marketing spending on online games, mobile applications store and online media. As a percentage of revenues, selling and marketing expenses increased to 10% for the second quarter of 2014 from 9% for the second quarter of 2013.

General and administrative expenses. General and administrative expenses increased by 44% to RMB3,453 million for the second quarter of 2014 from the second quarter of 2013. This primarily reflected increases in research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses was 17% for the second quarter of 2014, broadly stable compared to the second quarter of 2013.

Finance (costs)/income, net. We recorded finance costs, net of RMB354 million for the second quarter of 2014, compared to finance income, net of RMB14 million for the second quarter of 2013. The change mainly reflected the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in the second quarter of 2014, compared to foreign exchange gains in the same period last year. This also reflected an increase in interest expense mainly as a result of higher long-term notes payable.

Income tax expense. Income tax expense increased by 82% to RMB1,686 million for the second quarter of 2014 from the second quarter of 2013. This primarily reflected an increase in deferred tax liabilities in respect of withholding taxes as well as higher profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 59% to RMB5,836 million for the second quarter of 2014 from the second quarter of 2013. Non-GAAP profit attributable to equity holders of the Company increased by 42% to RMB5,874 million for the second quarter of 2014 from the second quarter of 2013.



Management Discussion and Analysis

SECOND QUARTER OF 2014 COMPARED TO FIRST QUARTER OF 2014

The following table sets forth the comparative figures for the second quarter of 2014 and the first quarter of 2014:

	Unaudited	
	Three months ended	
	30 June	31 March
	2014	2014
	(RMB in millions)	
Revenues	19,746	18,400
Cost of revenues	(7,574)	(7,800)
Gross profit	12,172	10,600
Interest income	406	375
Other gains, net	691	1,607
Selling and marketing expenses	(1,973)	(1,855)
General and administrative expenses	(3,453)	(2,937)
Operating profit	7,843	7,790
Finance costs, net	(354)	(238)
Share of profit of associates	23	45
Share of losses of joint ventures	–	(1)
Profit before income tax	7,512	7,596
Income tax expense	(1,686)	(1,164)
Profit for the period	5,826	6,432
Attributable to:		
Equity holders of the Company	5,836	6,457
Non-controlling interests	(10)	(25)
	5,826	6,432
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	5,874	5,194

⁽¹⁾ Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation.



Management Discussion and Analysis

Revenues. Revenues increased by 7% to RMB19,746 million for the second quarter of 2014 from the first quarter of 2014. The following table sets forth our revenues by line of business for the second quarter of 2014 and the first quarter of 2014:

	Unaudited			
	Three months ended			
	30 June 2014		31 March 2014	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	15,713	80%	14,413	78%
Online advertising	2,064	10%	1,177	6%
eCommerce transactions	1,324	7%	2,524	14%
Others	645	3%	286	2%
Total revenues	19,746	100%	18,400	100%

- Revenues from our VAS business increased by 9% to RMB15,713 million for the second quarter of 2014 from the first quarter of 2014. Online games revenues increased by 7% to RMB11,081 million, despite weaker seasonality for ACGs in China. This was primarily driven by revenue growth from smart phone games integrated with Mobile QQ and Weixin. Revenues from PC client games remained broadly stable. Social networks revenues increased by 15% to RMB4,632 million. This was mainly driven by growth in item sales on mobile platforms. Subscription revenues registered modest sequential growth due to an increase in revenues from QQ Membership, Qzone subscription service and Super VIP.
- Revenues from our online advertising business increased by 75% to RMB2,064 million for the second quarter of 2014 from the first quarter of 2014. This primarily reflected more favourable seasonality in the second quarter, as well as the positive impact of the FIFA World Cup and our strategic co-operation with JD.com. This also reflected the continued growth in video advertising and performance-based social advertising.
- Revenues from our eCommerce transactions business decreased by 48% to RMB1,324 million for the second quarter of 2014 from the first quarter of 2014. This primarily reflected the shift in traffic and the divestment of our eCommerce marketplaces as a result of our strategic transaction with JD.com.



Management Discussion and Analysis

Cost of revenues. Cost of revenues decreased by 3% to RMB7,574 million for the second quarter of 2014 from the first quarter of 2014. This mainly reflected a decline in cost of merchandise sold due to the sequential decrease in revenues from our eCommerce transactions business, partly offset by increases in sharing and content costs as well as staff costs. As a percentage of revenues, cost of revenues decreased to 38% for the second quarter of 2014 from 42% for the first quarter of 2014. The following table sets forth our cost of revenues by line of business for the second quarter of 2014 and the first quarter of 2014:

	Unaudited			
	Three months ended			
	30 June 2014		31 March 2014	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	4,755	30%	4,371	30%
Online advertising	1,140	55%	766	65%
eCommerce transactions	1,416	107%	2,422	96%
Others	263	41%	241	84%
Total cost of revenues	<u>7,574</u>		<u>7,800</u>	

- Cost of revenues for our VAS business increased by 9% to RMB4,755 million for the second quarter of 2014 from the first quarter of 2014. This mainly reflected increases in staff costs, bandwidth and server custody fees, as well as sharing and content costs.
- Cost of revenues for our online advertising business increased by 49% to RMB1,140 million for the second quarter of 2014 from the first quarter of 2014. This was primarily driven by increases in video content costs and commission payable to advertising agencies as a result of revenue growth.
- Cost of revenues for our eCommerce transactions business decreased by 42% to RMB1,416 million for the second quarter of 2014 from the first quarter of 2014. This was mainly driven by a decline in cost of merchandise sold, which reflected lower revenues from principal eCommerce transactions, partly offset by the recognition of an inventory provision charge in the second quarter of 2014.



Management Discussion and Analysis

Other gains, net. Other gains, net decreased by 57% to RMB691 million for the second quarter of 2014 from the first quarter of 2014. The decrease was primarily driven by the absence of disposal gains resulting from our strategic transaction with JD.com and sale of our equity interests in ChinaVision in the previous quarter. This was partially offset by an increase in deemed disposal gains related to investees mainly resulting from the IPOs of JD.com and Cheetah Mobile, as well as decreases in impairment provision for selected investee companies and donation made to Tencent Charity Fund versus that made in the first quarter of 2014.

Selling and marketing expenses. Selling and marketing expenses increased by 6% to RMB1,973 million for the second quarter of 2014 from the first quarter of 2014. This mainly reflected higher advertising spending on online games, online media and our mobile applications store, partly offset by lower spending on promotional programs for Weixin Payment. As a percentage of revenues, selling and marketing expenses was 10% for the second quarter of 2014, broadly stable compared to the first quarter of 2014.

General and administrative expenses. General and administrative expenses increased by 18% to RMB3,453 million for the second quarter of 2014 from the first quarter of 2014. This was primarily driven by increases in research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses increased to 17% for the second quarter of 2014 from 16% for the first quarter of 2014.

Finance costs, net. Finance costs, net increased by 49% to RMB354 million for the second quarter of 2014 from the first quarter of 2014. This mainly reflected an increase in interest expense driven by higher long-term notes payable.

Income tax expense. Income tax expense increased by 45% to RMB1,686 million for the second quarter of 2014 from the first quarter of 2014. This mainly reflected the absence of an income tax expense reversal recognised in the previous quarter for a subsidiary in China which qualified to enjoy a lower CIT rate.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 10% to RMB5,836 million for the second quarter of 2014 from the first quarter of 2014. Non-GAAP profit attributable to equity holders of the Company increased by 13% to RMB5,874 million for the second quarter of 2014 from the first quarter of 2014.



Management Discussion and Analysis

OTHER FINANCIAL INFORMATION

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June 2014	30 June 2013	30 June 2014	31 March 2014	30 June 2013
	(RMB in millions, unless specified)				
EBITDA (a)	14,805	10,125	8,018	6,787	4,968
Adjusted EBITDA (a)	15,566	10,666	8,445	7,121	5,228
Adjusted EBITDA margin (b)	41%	38%	43%	39%	36%
Interest expense	336	190	224	112	92
Net cash (c)	22,485	33,556	22,485	34,245	33,556
Capital expenditures (d)	2,055	2,499	917	1,138	1,464

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus 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 represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and long-term notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).



Management Discussion and Analysis

The following table reconciles our operating profit to our EBITDA and Adjusted EBITDA for the periods presented:

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2014	2013	2014	2014	2013
	(RMB in millions, unless specified)				
Operating profit	15,633	9,628	7,843	7,790	4,565
Adjustments:					
Interest income	(781)	(601)	(406)	(375)	(324)
Other (gains)/losses, net	(2,298)	(433)	(691)	(1,607)	(82)
Depreciation of fixed assets and investment properties	1,467	1,160	763	704	600
Amortisation of intangible assets	784	371	509	275	209
EBITDA	14,805	10,125	8,018	6,787	4,968
Equity-settled share-based compensation	761	541	427	334	260
Adjusted EBITDA	15,566	10,666	8,445	7,121	5,228

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, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this interim report. 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.



Management Discussion and Analysis

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 M&A transactions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first half of 2014 and 2013, the second quarter of 2014 and 2013, and the first quarter of 2014 to the nearest measures prepared in accordance with IFRS:

Unaudited six months ended 30 June 2014								
		Adjustments						
		(Gains)/losses						
		Cash-settled	on deemed	Amortisation		Special		
		Equity-settled	share-based	disposals/	of intangible	Impairment	dividend	
		share-based	compensation	disposals	assets	provision	income	
As reported	compensation	(a)	(b)	(c)	(d)	(e)	Non-GAAP ⁽¹⁾	
(RMB in millions, unless specified)								
Operating profit	15,633	761	394	(3,799)	31	1,145	–	14,165
Profit for the period	12,258	761	394	(3,721)	259	1,145	–	11,096
Profit attributable to equity holders	12,293	746	364	(3,734)	254	1,145	–	11,068
EPS ⁽²⁾ (RMB per share)								
– basic	1.332							1.199
– diluted	1.313							1.182
Operating margin	41%							37%
Net margin	32%							29%

Unaudited six months ended 30 June 2013								
		Adjustments						
		(Gains)/losses						
		Cash-settled	on deemed	Amortisation		Special		
		Equity-settled	share-based	disposals/	of intangible	Impairment	dividend	
		share-based	compensation	disposals	assets	provision	income	
As reported	compensation	(a)	(b)	(c)	(d)	(e)	Non-GAAP ⁽¹⁾	
(RMB in millions, unless specified)								
Operating profit	9,628	541	304	(25)	77	–	(438)	10,087
Profit for the period	7,755	541	304	(25)	116	–	(438)	8,253
Profit attributable to equity holders	7,724	537	268	(25)	98	–	(438)	8,164
EPS ⁽²⁾ (RMB per share)								
– basic	0.843							0.891
– diluted	0.828							0.875
Operating margin	34%							36%
Net margin	28%							30%



Management Discussion and Analysis

Unaudited three months ended 30 June 2014

	As reported	Adjustments					Special dividend income (e)	Non-GAAP ⁽¹⁾
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)		
(RMB in millions, unless specified)								
Operating profit	7,843	427	160	(1,082)	15	325	–	7,688
Profit for the period	5,826	427	160	(1,052)	204	325	–	5,890
Profit attributable to equity holders	5,836	418	145	(1,052)	202	325	–	5,874
EPS ⁽²⁾ (RMB per share)								
– basic	0.632							0.636
– diluted	0.623							0.627
Operating margin	40%							39%
Net margin	30%							30%

Unaudited three months ended 31 March 2014

	As reported	Adjustments					Special dividend income (e)	Non-GAAP ⁽¹⁾
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)		
(RMB in millions, unless specified)								
Operating profit	7,790	334	234	(2,717)	16	820	–	6,477
Profit for the period	6,432	334	234	(2,669)	55	820	–	5,206
Profit attributable to equity holders	6,457	328	219	(2,682)	52	820	–	5,194
EPS ⁽²⁾ (RMB per share)								
– basic	0.700							0.563
– diluted	0.690							0.555
Operating margin	42%							35%
Net margin	35%							28%



Management Discussion and Analysis

Unaudited three months ended 30 June 2013

	Adjustments							Non-GAAP ⁽¹⁾
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	
	(RMB in millions, unless specified)							
Operating profit	4,565	260	187	(25)	39	–	–	5,026
Profit for the period	3,684	260	187	(25)	58	–	–	4,164
Profit attributable to equity holders	3,680	259	164	(25)	48	–	–	4,126
EPS ⁽²⁾ (RMB per share)								
– basic	0.402							0.451
– diluted	0.395							0.443
Operating margin	32%							35%
Net margin	26%							29%

⁽¹⁾ Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation.

⁽²⁾ EPS was stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.

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) (Gains)/losses, net on deemed disposals of investees and disposals of investees and businesses
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates and available-for-sale financial assets
- (e) Special dividend income from Mail.ru



Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Our net cash positions as at 30 June 2014 and 31 March 2014 are as follows:

	Unaudited 30 June 2014	Unaudited 31 March 2014
	(RMB in millions)	
Cash and cash equivalents	32,639	26,523
Term deposits, current and non-current	24,858	25,989
	57,497	52,512
Borrowings, current and non-current	(8,820)	(9,035)
Long-term notes payable	(26,192)	(9,232)
Net cash	22,485	34,245

As at 30 June 2014, the Group had net cash of RMB22,485 million. The sequential decrease was primarily driven by the payment for our investments in associates, notably JD.com and 58.com, and final dividend for the year ended 31 December 2013, partly offset by free cash flow generated during the second quarter of 2014.

As at 30 June 2014, RMB9,649 million of our financial resources were held in deposits denominated in non-RMB currencies. Since there are limited 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.

For the second quarter of 2014, the Group had free cash flow of RMB6,318 million. This was a result of net cash generated from operating activities of RMB7,239 million, offset by payment for capital expenditure of RMB921 million. Payment for interests in associates and available-for-sale financial assets amounted to RMB15,953 million and RMB569 million, respectively.



Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 74, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2014, 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 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”). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 ‘Interim Financial Reporting’. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’. Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 ‘Review of interim financial information performed by the independent auditor of the entity’. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information is not properly prepared, in all material respects, in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 13 August 2014



Consolidated Statement of Financial Position

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'Million	Audited 31 December 2013 RMB'Million
ASSETS			
Non-current assets			
Fixed assets	7	8,336	8,693
Construction in progress	7	2,510	2,041
Investment properties	7	270	–
Land use rights	7	802	871
Intangible assets	7	4,181	4,103
Interests in associates	8	42,604	12,170
Investment in joint ventures		18	9
Deferred income tax assets	19	317	431
Available-for-sale financial assets	9	14,180	12,515
Prepayments, deposits and other assets	11	1,263	1,296
Term deposits		6,719	11,420
		81,200	53,549
Current assets			
Inventories		656	1,384
Accounts receivable	10	4,185	2,955
Prepayments, deposits and other assets	11	7,291	5,365
Term deposits		18,139	19,623
Restricted cash	15	6,523	4,131
Cash and cash equivalents		32,639	20,228
		69,433	53,686
Total assets		150,633	107,235



Consolidated Statement of Financial Position

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'Million	Audited 31 December 2013 RMB'Million
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	12	–	–
Share premium	12	3,601	2,846
Shares held for share award schemes	12	(898)	(871)
Other reserves		4,523	3,746
Retained earnings		62,756	52,224
		69,982	57,945
Non-controlling interests		493	518
Total equity		70,475	58,463
LIABILITIES			
Non-current liabilities			
Borrowings	17	4,030	3,323
Long-term notes payable	18	26,192	9,141
Deferred income tax liabilities	19	1,917	1,441
Long-term payables	16	1,227	1,600
Deferred revenue		3,966	–
		37,332	15,505



Consolidated Statement of Financial Position

As at 30 June 2014

	Note	Unaudited 30 June 2014 RMB'Million	Audited 31 December 2013 RMB'Million
Current liabilities			
Accounts payable	14	8,362	6,680
Other payables and accruals	15	13,517	10,246
Borrowings	17	4,790	2,589
Current income tax liabilities		839	1,318
Other tax liabilities		649	593
Deferred revenue		14,669	11,841
		42,826	33,267
Total liabilities		80,158	48,772
Total equity and liabilities		150,633	107,235
Net current assets		26,607	20,419
Total assets less current liabilities		107,807	73,968

The accompanying notes on pages 34 to 74 form an integral part of this Interim Financial Information.

On behalf of the Board

Ma Huateng
Director

Lau Chi Ping Martin
Director



Consolidated Income Statement

For the three and six months ended 30 June 2014

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Revenues					
Value-added services		15,713	10,752	30,126	21,418
Online advertising		2,064	1,297	3,241	2,147
eCommerce transactions		1,324	2,199	3,848	4,113
Others		645	136	931	254
		19,746	14,384	38,146	27,932
Cost of revenues	21	(7,574)	(6,590)	(15,374)	(12,544)
Gross profit		12,172	7,794	22,772	15,388
Interest income		406	324	781	601
Other gains, net	20	691	82	2,298	433
Selling and marketing expenses	21	(1,973)	(1,234)	(3,828)	(2,197)
General and administrative expenses	21	(3,453)	(2,401)	(6,390)	(4,597)
Operating profit		7,843	4,565	15,633	9,628
Finance (costs)/income, net	22	(354)	14	(592)	(68)
Share of profit of associates	8	23	46	68	177
Share of losses of joint ventures		–	(15)	(1)	(27)
Profit before income tax		7,512	4,610	15,108	9,710
Income tax expense	23	(1,686)	(926)	(2,850)	(1,955)
Profit for the period		5,826	3,684	12,258	7,755
Attributable to:					
Equity holders of the Company		5,836	3,680	12,293	7,724
Non-controlling interests		(10)	4	(35)	31
		5,826	3,684	12,258	7,755
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			Restated		Restated
– basic	24	0.632	0.402	1.332	0.843
– diluted	24	0.623	0.395	1.313	0.828

The accompanying notes on pages 34 to 74 form an integral part of this Interim Financial Information.



Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2014

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	5,826	3,684	12,258	7,755
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	5	–	13	–
Net gains/(losses) from changes in fair value of available-for-sale financial assets	730	368	693	(238)
Currency translation differences	(11)	(28)	6	(40)
	724	340	712	(278)
Total comprehensive income for the period	6,550	4,024	12,970	7,477
Attributable to:				
Equity holders of the Company	6,556	4,025	12,997	7,453
Non-controlling interests	(6)	(1)	(27)	24
	6,550	4,024	12,970	7,477

The accompanying notes on pages 34 to 74 form an integral part of this Interim Financial Information.



Consolidated Statement of Changes In Equity

For the six months ended 30 June 2014

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 1 January 2014	-	2,846	(871)	3,746	52,224	57,945	518	58,463
Comprehensive income								
Profit for the period	-	-	-	-	12,293	12,293	(35)	12,258
Other comprehensive income:								
– share of other comprehensive income of associates	-	-	-	13	-	13	-	13
– net gains from changes in fair value of available-for-sale financial assets	-	-	-	693	-	693	-	693
– currency translation differences	-	-	-	(2)	-	(2)	8	6
Total comprehensive income for the period	-	-	-	704	12,293	12,997	(27)	12,970
Transaction with owners								
Employee share option schemes:								
– value of employee services	-	60	-	51	-	111	10	121
– proceeds from shares issued	-	195	-	-	-	195	-	195
Employee share award schemes:								
– value of employee services	-	572	-	63	-	635	5	640
– shares purchased for Share Award Schemes	-	-	(38)	-	-	(38)	-	(38)
– vesting of awarded shares	-	(11)	11	-	-	-	-	-
Repurchase and cancellation of shares	-	(61)	-	-	-	(61)	-	(61)
Dividends (Note 25)	-	-	-	-	(1,761)	(1,761)	(115)	(1,876)
Total contributions by and distributions to owners for the period	-	755	(27)	114	(1,761)	(919)	(100)	(1,019)
Non-controlling interests arising from business combination	-	-	-	-	-	-	106	106
Disposal of equity interests in a non-wholly owned subsidiary	-	-	-	230	-	230	(10)	220
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	-	-	(628)	-	(628)	6	(622)
Settlement of the financial liabilities in respect of the put option granted to non-controlling interests owners	-	-	-	357	-	357	-	357
Total transactions with owners for the period	-	755	(27)	73	(1,761)	(960)	2	(958)
Balance at 30 June 2014	-	3,601	(898)	4,523	62,756	69,982	493	70,475

The accompanying notes on pages 34 to 74 form an integral part of this Interim Financial Information.



Consolidated Statement of Changes In Equity

For the six months ended 30 June 2014

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 1 January 2013	–	2,880	(667)	816	38,269	41,298	850	42,148
Comprehensive income								
Profit for the period	–	–	–	–	7,724	7,724	31	7,755
Other comprehensive income:								
– net losses from changes in fair value of available-for-sale financial assets	–	–	–	(238)	–	(238)	–	(238)
– currency translation differences	–	–	–	(33)	–	(33)	(7)	(40)
Total comprehensive income for the period	–	–	–	(271)	7,724	7,453	24	7,477
Transaction with owners								
Capital injection	–	–	–	–	–	–	5	5
Employee share option schemes:								
– value of employee services	–	48	–	24	–	72	3	75
– proceeds from shares issued	–	146	–	–	–	146	–	146
Employee share award schemes:								
– value of employee services	–	456	–	9	–	465	1	466
– shares purchased for Share Award Schemes	–	–	(21)	–	–	(21)	–	(21)
– vesting of awarded shares	–	(14)	14	–	–	–	–	–
Repurchase and cancellation of shares	–	(1,323)	–	–	–	(1,323)	–	(1,323)
Dividends	–	–	–	–	(1,468)	(1,468)	(54)	(1,522)
Total contributions by and distributions to owners for the period	–	(687)	(7)	33	(1,468)	(2,129)	(45)	(2,174)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	6	–	6	(5)	1
Total transactions with owners for the period	–	(687)	(7)	39	(1,468)	(2,123)	(50)	(2,173)
Balance at 30 June 2013	–	2,193	(674)	584	44,525	46,628	824	47,452

The accompanying notes on pages 34 to 74 form an integral part of this Interim Financial Information.



Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'Million	RMB'Million
Cash flows from operating activities		
Cash generated from operations	16,532	13,458
Income tax paid	(2,719)	(1,506)
	<u>13,813</u>	<u>11,952</u>
Cash flows from investing activities		
(Payments)/proceeds for business combinations, net of cash acquired	(4)	2
Proceeds from disposal of subsidiaries	99	–
Purchase of fixed assets, construction in progress and investment properties	(1,894)	(1,872)
Proceeds from disposals of fixed assets	32	2
Payments for interests in associates	(22,110)	(694)
Payments for investment in joint ventures	(2)	–
Purchase/prepayment of intangible assets	(854)	(408)
Proceeds from disposals of intangible assets	30	–
Purchase/prepayment of land use rights	(3)	(38)
Purchase of available-for-sale financial assets	(2,652)	(815)
Proceeds from disposals of interests in associates	977	–
Proceeds from disposals of available-for-sale financial assets	21	–
Proceeds/(payments) for loan to associates	63	(61)
Payments for loan to joint ventures	–	(20)
Receipt from maturity of term deposits with initial term of over three months	15,777	12,016
Placement of term deposits with initial term over three months	(9,592)	(16,320)
Interest received	602	265
Dividends received	87	472
	<u>(19,423)</u>	<u>(7,471)</u>
Net cash flows used in investing activities		



Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	1,254	35
Repayment of short-term borrowings	(35)	(951)
Proceeds from long-term borrowings	1,833	1,858
Repayment of long-term borrowings	(216)	(1,236)
Net proceeds from issuance of long-term notes	16,894	–
Proceeds from issuance of ordinary shares	195	146
Payments for repurchase of shares	(61)	(1,323)
Payments for purchase of shares for share award schemes	(38)	(21)
Proceeds from capital injection from non-controlling interests	–	5
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	(54)	(7)
Dividends paid to the Company's shareholders	(1,759)	(1,468)
Dividends paid to non-controlling interests	(115)	–
Net cash flows generated from/(used in) financing activities	<u>17,898</u>	<u>(2,962)</u>
Net increase in cash and cash equivalents	12,288	1,519
Cash and cash equivalents at beginning of period	20,228	13,383
Exchange gains/(losses) on cash and cash equivalents	123	(110)
Cash and cash equivalents at end of period	<u>32,639</u>	<u>14,792</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	14,248	8,007
Term deposits and highly liquid investments with initial term within three months	18,391	6,785
	<u>32,639</u>	<u>14,792</u>

The accompanying notes on pages 34 to 74 form an integral part of this Interim Financial Information.



Notes to the Interim Financial Information

1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, 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 Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of Internet and mobile value-added services (“VAS”), online advertising services and eCommerce transactions services to users in the People’s Republic of China (the “PRC”).

The consolidated statement of financial position as at 30 June 2014, 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 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 13 August 2014.

This Interim Financial Information has not been audited.

2 BASIS OF PREPARATION AND PRESENTATION

The Interim Financial Information is prepared in accordance with International Accounting Standards (“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 2013 as set out in the 2013 annual report of the Company dated 19 March 2014 (the “2013 Financial Statements”).



Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES

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 2013 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 assets and liabilities stated at fair value, such as available-for-sale financial assets.

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

The following amendments to standards and interpretation adopted by the Group, which are mandatory for the financial year of the Group beginning 1 January 2014, have no material impact on the Group’s Interim Financial Information.

- Amendment to IAS 32, ‘Financial instruments: Presentation’, on asset and liability offsetting. This amendment relates to the application guidance in IAS 32, ‘Financial instruments: Presentation’, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendment to IAS 39, ‘Financial Instruments: Recognition and Measurement’ - ‘Novation of derivatives’. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.
- Amendments to IFRS 10, 12 and IAS 27, ‘Consolidation for investment entities’. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics. Changes have also been made in accordance with provisions under IFRS 12 for disclosures that an investment entity needs to make.
- IFRIC 21, ‘Levies’, sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to payment for a levy and when should a liability be recognised.



Notes to the Interim Financial Information

4 ESTIMATES

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2013 Financial Statements.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group is subject to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2013 Financial Statements.

There were no significant changes in any risk management policies during the six months ended 30 June 2014.

The Company used to adopt Renminbi ("RMB") as its functional currency. However, as a result of the Group's continuous acquisitions and financing activities undertaken in recent years, the investing and financing business transactions of the Company and certain of its overseas subsidiaries have increasingly placed reliance on United States Dollars ("USD") instead of RMB. As such, the Company and certain of its overseas subsidiaries have changed their functional currency from RMB to USD. The directors of the Company consider USD would be more appropriate to act as the functional currency in reflecting the underlying transactions that are relevant to the Company and certain of its overseas subsidiaries. Such change has not resulted in any material effect on the Group's financial information.



Notes to the Interim Financial Information

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

Listed below are the Group's major monetary assets and liabilities as at 30 June 2014, which are exposed to foreign exchange risk:

	Denomination currency	Unaudited 30 June 2014 RMB'Million	Audited 31 December 2013 RMB'Million
Monetary assets			
Current assets	EUR	1,868	1,351
Current assets	HKD	527	556
Current assets	KRW	1,119	916
Current assets	RMB	8,145	–
Current assets	USD	1,113	4,099
Monetary liabilities			
Non-current liabilities	HKD	1,590	–
Non-current liabilities	USD	–	12,784
Current liabilities	USD	2,147	4,260

During the three and six months ended 30 June 2014, the Group reported exchange losses of RMB130 million and RMB256 million, respectively (for the three and six months ended 30 June 2013: exchange gains of RMB106 million and RMB122 million respectively) (Note 22). The losses were recorded in "Finance (costs)/income, net" in the consolidated income statement for the three and six months ended 30 June 2014.

(b) Capital risk management

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidated statement of financial position, which is also equal to total assets less total liabilities.

As at 30 June 2014, the gearing ratio of the Group was 53% (31 December 2013: 45%).



Notes to the Interim Financial Information

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

The Group's main financial instruments carried at fair value are available-for-sale financial assets, and the valuation method is the same as that applied in the 2013 Financial Statements.

During the three and six months ended 30 June 2014, the Group reported a net gain (net of tax) of RMB730 million and RMB693 million, respectively (for the three and six months ended 30 June 2013: a net gain (net of tax) of RMB368 million and a net loss (net of tax) of RMB238 million, respectively), for available-for-sale financial assets in other comprehensive income, which mainly resulted from the change in fair value of available-for-sale financial assets which have quoted prices (unadjusted) in active markets.

6 SEGMENT INFORMATION

The chief operating decision-makers mainly include the executive directors of the Company. They review the Group's internal reports in order to determine the operating segments, assess performance and allocate resources based on these reports.

The Group has the following reportable segments for the three and six months ended 30 June 2014 and 2013:

- VAS;
- Online advertising;
- eCommerce transactions; and
- Others.

Others segment of the Group comprises provision of trademark licensing, software development services, software sales and other services.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance income/(costs), net and income tax expense are not allocated to individual operating segment either.

There were no material inter-segment sales during the three and six months ended 30 June 2014 and 2013. 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.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in the Interim Financial Information. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.



Notes to the Interim Financial Information

6 SEGMENT INFORMATION (continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the three and six months ended 30 June 2014 and 2013 is as follows:

	Unaudited				
	Three months ended 30 June 2014				
	VAS RMB'Million	Online advertising RMB'Million	eCommerce transactions RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>15,713</u>	<u>2,064</u>	<u>1,324</u>	<u>645</u>	<u>19,746</u>
Gross profit	<u>10,958</u>	<u>924</u>	<u>(92)</u>	<u>382</u>	<u>12,172</u>
Depreciation	487	39	4	5	535
Amortisation	44	416	–	–	460
Share of profit/(losses) of associates	<u>(46)</u>	<u>6</u>	<u>(127)</u>	<u>190</u>	<u>23</u>

	Unaudited				
	Three months ended 30 June 2013				
	VAS RMB'Million	Online advertising RMB'Million	eCommerce transactions RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>10,752</u>	<u>1,297</u>	<u>2,199</u>	<u>136</u>	<u>14,384</u>
Gross profit	<u>6,916</u>	<u>697</u>	<u>126</u>	<u>55</u>	<u>7,794</u>
Depreciation	402	33	3	5	443
Amortisation	73	72	–	–	145
Share of profit/(losses) of associates	16	–	(4)	34	46
Share of losses of joint ventures	<u>(15)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(15)</u>



Notes to the Interim Financial Information

6 SEGMENT INFORMATION (continued)

	Unaudited				Total RMB'Million
	Six months ended 30 June 2014				
	VAS RMB'Million	Online advertising RMB'Million	eCommerce transactions RMB'Million	Others RMB'Million	
Segment revenues	<u>30,126</u>	<u>3,241</u>	<u>3,848</u>	<u>931</u>	<u>38,146</u>
Gross profit	<u>21,000</u>	<u>1,335</u>	<u>10</u>	<u>427</u>	<u>22,772</u>
Depreciation	941	77	8	11	1,037
Amortisation	89	598	–	–	687
Share of profit/(losses) of associates	99	(39)	(176)	184	68
Share of losses of joint ventures	–	–	–	(1)	(1)

	Unaudited				Total RMB'Million
	Six months ended 30 June 2013				
	VAS RMB'Million	Online advertising RMB'Million	eCommerce transactions RMB'Million	Others RMB'Million	
Segment revenues	<u>21,418</u>	<u>2,147</u>	<u>4,113</u>	<u>254</u>	<u>27,932</u>
Gross profit	<u>13,989</u>	<u>1,043</u>	<u>258</u>	<u>98</u>	<u>15,388</u>
Depreciation	775	64	7	9	855
Amortisation	122	119	–	–	241
Share of profit/(losses) of associates	124	–	(13)	66	177
Share of losses of joint ventures	(27)	–	–	–	(27)

The reconciliation of gross profit to profit before tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. Revenues derived from external customers in Mainland China for the three and six months ended 30 June 2014 were RMB18,218 million and RMB35,101 million, respectively (for the three and six months ended 30 June 2013: RMB13,381 million and RMB26,012 million, respectively), and revenues derived from external customers in other regions were RMB1,528 million and RMB3,045 million, respectively (for three and six months ended 30 June 2013: RMB1,003 million and RMB1,920 million, respectively).



Notes to the Interim Financial Information

6 SEGMENT INFORMATION (continued)

As at 30 June 2014, the total non-current assets, excluding financial instruments and deferred income tax assets, located in Mainland China and other regions were RMB49,954 million and RMB9,092 million, respectively (31 December 2013: RMB20,848 million and RMB7,032 million, respectively).

Revenues derived from any single external customer were less than 10% of the Group's total revenues for the three and six months ended 30 June 2014 and 2013.

7 FIXED ASSETS, CONSTRUCTION IN PROGRESS, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Unaudited				
	Fixed assets RMB'Million	Construction in progress RMB'Million	Investment properties RMB'Million	Land use rights RMB'Million	Intangible assets RMB'Million
Net book amount at 1 January 2014	8,693	2,041	–	871	4,103
Business combinations	1	–	–	–	206
Other additions	1,393	550	–	3	747
Transfers	(196)	(76)	272	–	–
Disposals	(96)	(5)	–	(63)	(112)
Depreciation/amortisation	(1,465)	–	(2)	(9)	(784)
Currency translation differences	6	–	–	–	21
Net book amount at 30 June 2014	8,336	2,510	270	802	4,181
Net book amount at 1 January 2013	7,403	534	22	794	4,719
Business combinations	3	–	–	–	45
Other additions	1,833	502	–	38	448
Transfers	117	(117)	–	–	–
Disposals	(1)	–	–	–	–
Depreciation/amortisation	(1,160)	–	–	(8)	(371)
Currency translation differences	(13)	–	–	–	(42)
Net book amount at 30 June 2013	8,182	919	22	824	4,799

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. Non-financial assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.



Notes to the Interim Financial Information

7 FIXED ASSETS, CONSTRUCTION IN PROGRESS, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS (continued)

There was no indication of impairment for fixed assets, construction in progress, investment properties, land use rights and intangible assets during the three and six months ended 30 June 2014.

8 INTERESTS IN ASSOCIATES

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Investments in associates (Note (a))		
– Listed shares	27,579	1,426
– Unlisted shares	14,087	9,441
	41,666	10,867
Investments in redeemable preference shares of associates (Note (b))	934	1,119
Loans to associates	4	184
	42,604	12,170

Note:

(a) Investments in associates

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	10,867	6,310
Additions ((i), (ii), (iii), (iv), (v) and (vi))	30,526	580
Deemed disposal gains	986	–
Share of profit of associates	68	177
Share of other comprehensive income of associates	13	–
Dividends from associates	(25)	(26)
Disposal of associates	(261)	(132)
Impairment provision (vii)	(429)	–
Currency translation differences	(79)	–
At end of period	41,666	6,909



Notes to the Interim Financial Information

8 INTERESTS IN ASSOCIATES (continued)

(a) Investments in associates (continued)

- (i) In March 2014, the Group entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com, Inc. (“JD.com”) (“JD.com Pre-IPO Subscription”), an online direct sales company operating in the PRC, to purchase 351,678,637 ordinary shares of JD.com, representing, approximately 15.0% of the outstanding JD.com ordinary shares immediately after the completion of the JD.com Pre-IPO Subscription, at an aggregate consideration of cash, certain eCommerce related businesses and assets of the Group, and 9.9% equity interests of Shanghai Icson E-Commerce Development Company Limited (“Yixun”), which is a non-wholly owned subsidiary of the Group, with a call option granted to acquire the remaining equity interests held by the Group in Yixun at the higher of RMB800 million and the then fair value of the interests.

In addition, the Group also entered into a strategic co-operation agreement (“SCA”) with JD.com that the Group would offer level 1 access points at Weixin and Mobile QQ, and other key platform support to JD.com. The fair market value of the support to be provided to JD.com under the SCA is accounted for as deferred revenue of the Group and the amount is recognised over the duration of the SCA.

On 22 May 2014, the American Depository Shares of JD.com were listed on the NASDAQ (the “JD.com IPO”), and the Group further acquired 5.0% of JD.com’s issued and outstanding shares on a fully-diluted basis at a cash consideration of approximately USD1,325 million (equivalent to RMB8,161 million). As of 30 June 2014, the Group’s equity interests of JD.com were approximately 17.43% on a fully-diluted basis.

The total consideration of the investment in JD.com is approximately RMB16,959 million.

- (ii) In March 2014, the Group entered into an agreement with E-House (China) holdings Limited (“E-House”) to acquire from E-House approximately 15.0% of equity interests of Leju Holdings Limited (“Leju”) on a fully-diluted basis at a cash consideration of USD180 million (equivalent to approximately RMB1,102 million). On 22 April 2014, the shares of Leju were listed on the New York Stock Exchange and the Group subscribed additional shares of Leju at a cash consideration of USD20 million (equivalent to approximately RMB125 million), such that the Group’s equity interests of Leju were approximately 15.0% on a fully-diluted basis.

The total consideration of the investment in Leju is approximately RMB1,227 million.

- (iii) In April 2014, the Group entered into an agreement to acquire approximately 11.28% of the total share capital in NavInfo Co., Ltd. (“NavInfo”) at a total consideration of RMB1,173 million. NavInfo provides digital maps, telematics and dynamic traffic information services as well as geography-related business intelligence solutions in the PRC.



Notes to the Interim Financial Information

8 INTERESTS IN ASSOCIATES (continued)

(a) Investments in associates (continued)

- (iv) In June 2014, the Group entered into an agreement with 58.com Inc. (“58.com”) to acquire 19.9% of total outstanding share capital of 58.com on a fully-diluted basis at a consideration of approximately USD736 million (equivalent to approximately RMB4,541 million). 58.com operates a classified listings platform in the PRC.
- (v) In January 2014, the Group entered into an agreement to subscribe approximately 680 million new ordinary shares of China South City Holdings Limited (“CSC”) at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). In addition, the Group has a call option to subscribe further 245 million new shares of CSC at a cash consideration of HKD857 million (equivalent to approximately RMB680 million) within 2 years after its initial investment made in CSC. CSC is a developer and operator of large scale integrated logistics and trade centers in the PRC.

During the three months ended 30 June 2014, the Group nominated a director to the board of CSC. Accordingly, the Group reclassified its investment in CSC from available-for-sale financial assets to investment in associates.

- (vi) In addition to the above, the Group also acquired some other associates or made additional investments into existing associates for an aggregate consideration of RMB5,449 million during the six months ended 30 June 2014. They are principally engaged in online to offline (“O2O”) life information business and other Internet-related business.
- (vii) During the six months ended 30 June 2014, the Group made an impairment provision of RMB429 million (for the six months ended 30 June 2013: Nil) against its investments in certain associates based on the results of assessment performed on the carrying amounts of these investments with reference to the business performance and recoverable values of these associates.

Management has assessed the level of influence that the Group has on certain investments and determined that it has significant influence even though the shareholding is below 20% because of the Board representation or other arrangements. Consequently, these investments have been classified as associates.

(b) Investments in redeemable preference shares of associates

The Group held certain redeemable preference shares of the associates, which are principally engaged in online community services, online game development and other Internet-related businesses. The redemption prices of the relevant shares are fixed at not less than their original subscription prices.

During the six months ended 30 June 2014, the Group also made an impairment provision of RMB280 million (for the six months ended 30 June 2013: Nil) for investments in redeemable preference shares of certain associates with reference to their business performance and the assessed recoverable values of these investments.



Notes to the Interim Financial Information

8 INTERESTS IN ASSOCIATES (continued)

(c) Transactions with associates

During the six months ended 30 June 2014 and 2013, the Group entered into co-operation agreements with certain associates, pursuant to which the associates operate their games/applications on the Group's Internet platforms, which are available to the users of the Group. The Group pays the associates a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in their games/applications. In the whole arrangement, the Group acts as an agent and recognises the related revenue on a net basis. During the six months ended 30 June 2014 and 2013, revenues recorded by the Group from the above co-operation with associates were not material to the Group. In addition, during the six months ended 30 June 2014 and 2013, the Group also provided/purchased traffic and other Internet value-added services to/from certain of its associates. Revenues/costs recorded by the Group from such transactions were not material to the Group.

As at 30 June 2014, there were certain call or conversion options embedded in interests in associates. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the Interim Financial Information.



Notes to the Interim Financial Information

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	12,515	5,633
Additions (Note (a) and (b))	2,713	814
Gains/(losses) from changes in fair value	664	(165)
Impairment provision	(436)	–
Reclassification (Note (a))	(1,244)	–
Currency translation differences	(32)	–
	14,180	6,282
At end of period, all non-current	14,180	6,282
	5,169	3,917
Market value of listed securities	5,169	3,917

Note:

- (a) In January 2014, the Group entered into an agreement to subscribe approximately 680 million new ordinary shares of CSC at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). During the three months ended 30 June 2014, the Group reclassified its investment in CSC from available-for-sale financial assets to investment in associates. The detail information is disclosed in Note 8 (a) (v).
- (b) The Group acquired some other available-for-sale financial assets or made some additional investments in some existing available-for-sale financial assets for an aggregate consideration of RMB1,536 million during the six months ended 30 June 2014. They are principally engaged in O2O business and other Internet-related businesses.

As at 30 June 2014, there were certain call or conversion options embedded in available-for-sale financial assets. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the Interim Financial Information.



Notes to the Interim Financial Information

10 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
0 - 30 days	2,112	1,537
31 - 60 days	850	827
61 - 90 days	612	369
Over 90 days	611	222
	4,185	2,955

Accounts receivable were mainly denominated in RMB.

Receivable balances as at 30 June 2014 mainly represented amounts due from telecommunications operators, including China Mobile Communications Corporation, China United Network Communications Group Company Limited, China Telecommunications Corporation and their respective branches, subsidiaries and affiliates, as well as brand display advertising customers mainly located in the PRC.

While there are no contractual requirements for the telecommunications 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 related to brand display advertising business, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 30 June 2014.



Notes to the Interim Financial Information

11 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for licensed contents	879	840
Running royalty fees for online games	–	37
Others	384	419
	1,263	1,296
Included in current assets:		
Running royalty fees for online games	1,594	1,454
Interest receivables	1,310	1,131
Prepaid expenses	1,785	1,031
Refundable value-added tax	417	220
Rental deposits and other deposits	466	138
Others	1,719	1,391
	7,291	5,365
	8,554	6,661

The directors of the Company considered that the carrying amounts of prepayments, deposits and other assets approximated to their fair values as at 30 June 2014.

Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference made to the credit status of the respective recipients.



Notes to the Interim Financial Information

12 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

With effect from 15 May 2014, each of the existing issued and unissued shares of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each (each a “Subdivided Share”), after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 (“2014 AGM”) and the Stock Exchange granting the listing of, and permission to deal in, the subdivided shares (the “Share Subdivision”). Upon the Share Subdivision became effective, the authorised capital of the Company was HKD1,000,000 divided into 50,000,000,000 Subdivided Shares of HKD0.00002 each.

As at 30 June 2014, the total authorised share capital of the Company comprised of 50,000,000,000 ordinary shares which is the number after the effect of the Share Subdivision (31 December 2013: 10,000,000,000 shares which is the number before the effect of the Share Subdivision) with par value of HKD0.00002 per share after the effect of the Share Subdivision (31 December 2013: HKD0.0001 per share before the effect of the Share Subdivision).

As at 30 June 2014, the total number of issued ordinary shares of the Company was 9,342,539,203 shares after the effect of the Share Subdivision (31 December 2013: 1,862,110,840 shares before the effect of the Share Subdivision) which included 95,225,685 shares after the effect of the Share Subdivision (31 December 2013: 19,501,655 shares before the effect of the Share Subdivision) held under the Share Award Schemes (Note 13(b)). They were all fully paid up.



Notes to the Interim Financial Information

12 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

	Number of ordinary shares	Unaudited			Total RMB'Million
		Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	
At 1 January 2014 (Note (a))	1,862,110,840	–	2,846	(871)	1,975
Employee share option schemes:					
– value of employee services	–	–	60	–	60
– shares issued and proceeds received before the Share Subdivision (Note (a))	3,715,616	–	114	–	114
– shares issued and proceeds received after the Share Subdivision (Note (b))	14,171,923	–	81	–	81
Employee share award schemes:					
– value of employee services	–	–	572	–	572
– shares purchased for share award schemes	–	–	–	(38)	(38)
– shares vested from share award schemes and transferred to the grantees	–	–	(11)	11	–
Repurchase and cancellation of shares before the Share Subdivision (Note (a))	(153,000)	–	(61)	–	(61)
Share Subdivision difference (Note(c))	7,462,693,824	–	–	–	–
At 30 June 2014 (Note (b))	9,342,539,203	–	3,601	(898)	2,703



Notes to the Interim Financial Information

12 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

	Number of ordinary shares	Unaudited			
		Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2013 (Note (a))	1,853,333,230	–	2,880	(667)	2,213
Employee share option schemes:					
– value of employee services	–	–	48	–	48
– shares issued and proceeds received (Note (a))	5,792,121	–	146	–	146
Employee share award schemes:					
– value of employee services	–	–	456	–	456
– shares purchased for share award schemes	–	–	–	(21)	(21)
– shares vested from share award schemes and transferred to the grantees	–	–	(14)	14	–
Repurchase and cancellation of shares (Note (a))	<u>(6,643,000)</u>	<u>–</u>	<u>(1,323)</u>	<u>–</u>	<u>(1,323)</u>
At 30 June 2013 (Note (a))	<u>1,852,482,351</u>	<u>–</u>	<u>2,193</u>	<u>(674)</u>	<u>1,519</u>

Note:

- (a) The numbers of shares were presented as before the effect of the Share Subdivision.
- (b) The numbers of shares were presented as after the effect of the Share Subdivision.
- (c) It represented the adjustment for the difference of the numbers of shares before and after the effect of the Share Subdivision.



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, under which the directors of the Company may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The Pre-IPO Option Scheme expired on 31 December 2011. The Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Option Scheme II.

In respect of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, the exercise price must be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the exercise prices and the number of outstanding share options, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision.



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	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	No. of options
At 1 January 2014 (Note (1))	HKD11.25	819,266	HKD75.69	12,648,005	HKD158.50	1,000,000	14,467,271
Granted before the Share Subdivision (Note (1))	-	-	HKD572.60	2,307,500	-	-	2,307,500
Granted after the Share Subdivision (Note (2))	-	-	HKD112.30	62,500	-	-	62,500
Exercised before the Share Subdivision (Note (1))	HKD11.25	(819,224)	HKD46.54	(2,896,392)	-	-	(3,715,616)
Exercised after the Share Subdivision (Note (2))	-	-	HKD7.15	(14,171,923)	-	-	(14,171,923)
Lapsed before the Share Subdivision (Note (1))	HKD14.53	(42)	HKD116.38	(600,000)	-	-	(600,042)
Lapsed after the Share Subdivision (Note (2))	-	-	HKD6.35	(100)	-	-	(100)
Share Subdivision difference (Note (3))	-	-	-	45,836,452	-	4,000,000	49,836,452
At 30 June 2014 (Note (2))	-	-	HKD45.84	43,186,042	HKD31.70	5,000,000	48,186,042
Exercisable as at 30 June 2014 (Note (2))	-	-	HKD14.83	16,028,572	-	-	16,028,572
At 1 January 2013 (Note (1))	HKD11.13	4,596,489	HKD65.50	20,633,097	HKD158.50	1,000,000	26,229,586
Exercised (Note (1))	HKD11.51	(1,685,849)	HKD39.51	(4,106,272)	-	-	(5,792,121)
Lapsed (Note (1))	-	-	HKD147.04	(91,510)	-	-	(91,510)
At 30 June 2013 (Note (1))	HKD10.91	2,910,640	HKD71.54	16,435,315	HKD158.50	1,000,000	20,345,955
Exercisable as at 30 June 2013 (Note (1))	HKD10.91	2,910,640	HKD46.38	8,072,784	-	-	10,983,424

Note:

- (1) The numbers of shares and average exercise price were presented as before the effect of the Share Subdivision.
- (2) The numbers of shares and average exercise price were presented as after the effect of the Share Subdivision.
- (3) It represented the adjustment for the difference of the numbers of shares before and after the effect of the Share Subdivision.



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the six months ended 30 June 2014, 1,000,000 share options (before the effect of the Share Subdivision) were granted to an executive director of the Company (for the six months ended 30 June 2013: no share option was granted to any director of the Company).

The directors of the Company have used the Black-Scholes valuation model (the “BS Model”) to determine the fair value of the options granted, which is to be expensed over the vesting period. The weighted average fair value of options granted during the six months ended 30 June 2014 was HKD36.63 per share (equivalent to approximately RMB29.00 per share) after the effect of the Share Subdivision (no option was granted during the six months ended 30 June 2013).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model, which is summarised as below.

	Unaudited
	Six months ended
	30 June 2014
Weighted average share price at the grant date (Note (1))	HKD111.70
Risk free rate	1.56%-1.91%
Dividend yield	0.34%
Expected volatility (Note (2))	44.20%-44.50%

Note:

- (1) The weighted average share price at the grant date was presented as after the effect of the Share Subdivision.
- (2) The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

As a result of options exercised during the six months ended 30 June 2014, 32,750,003 ordinary shares after the effect of the Share Subdivision (during the six months ended 30 June 2013: 5,792,121 ordinary shares before the effect of the Share Subdivision) were issued by the Company (Note 12). The weighted average price of the shares at the time these options were exercised was HKD107.27 per share (equivalent to approximately RMB84.92 per share) after the effect of the Share Subdivision (for the six months ended 30 June 2013: HKD286.19 per share (equivalent to approximately RMB229.08 per share) before the effect of the Share Subdivision).



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2014 and 31 December 2013 are as follows:

Expiry Date	Range of exercise price before the Share Subdivision	Range of exercise price after the Share Subdivision	Number of share options	
			30 June 2014 (after the Share Subdivision)	31 December 2013 (before the Share Subdivision)
10 years commencing from the adoption date of 24 March 2004	HKD3.665-HKD8.35	HKD0.733-HKD1.67	–	492,741
(Post-IPO Option Scheme I)	HKD11.55-HKD25.26	HKD2.31-HKD5.052	–	326,525
			–	819,266
7 years commencing from the date of grant of options	HKD31.75-HKD43.50	HKD6.35-HKD8.70	586,150	4,846,040
(Post-IPO Option Scheme II)	HKD45.50-HKD90.30	HKD9.10-HKD18.06	17,959,967	4,586,510
	HKD128.40-HKD572.60	HKD25.68-HKD114.52	24,639,925	3,215,455
			43,186,042	12,648,005
10 years commencing from the date of grant of options				
(Post-IPO Option Scheme III)	HKD158.50	HKD31.70	5,000,000	1,000,000
			48,186,042	14,467,271

The outstanding share options as of 30 June 2014 were divided into two to five tranches on an equal basis as at their grant date. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and the remaining tranches are exercisable in each subsequent year.



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted two share award schemes (the “Share Award Schemes”), both of which are administered by an independent trustee appointed by the Group. The vesting period of the awarded share is determined by the Board.

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the number of outstanding awarded shares, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the six months ended 30 June 2014 and 2013 are as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2014 (Note (i))	1,435,659	18,065,996	19,501,655
Purchased and withheld before the Share Subdivision (Note (i))	31,583	–	31,583
Purchased and withheld after the Share Subdivision (Note (ii))	286,770	–	286,770
Granted before the Share Subdivision (Note (i))	(1,183,445)	1,183,445	–
Granted after the Share Subdivision (Note (ii))	(597,100)	597,100	–
Lapsed before the Share Subdivision (Note (i))	461,220	(461,220)	–
Lapsed after the Share Subdivision (Note (ii))	542,080	(542,080)	–
Vested and transferred before the Share Subdivision (Note (i))	–	(226,797)	(226,797)
Vested and transferred after the Share Subdivision (Note (ii))	–	(1,593,290)	(1,593,290)
Share Subdivision difference (Note(iii))	2,980,068	74,245,696	77,225,764
At 30 June 2014 (Note (ii))	3,956,835	91,268,850	95,225,685
Vested but not transferred as at 30 June 2014 (Note (ii))			68,585
At 1 January 2013 (Note (i))	405,230	18,944,442	19,349,672
Purchased and withheld (Note (i))	110,343	–	110,343
Granted (Note (i))	(420,337)	420,337	–
Lapsed (Note (i))	460,742	(460,742)	–
Vested and transferred (Note (i))	–	(575,618)	(575,618)
At 30 June 2013 (Note (i))	555,978	18,328,419	18,884,397
Vested but not transferred as at 30 June 2013 (Note (i))			–



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes (continued)

Note:

- (i) The numbers of shares were presented as before the effect of the Share Subdivision.
- (ii) The numbers of shares were presented as after the effect of the Share Subdivision.
- (iii) It represented the adjustment for the difference of the numbers of shares before and after the effect of the Share Subdivision.

During the six months ended 30 June 2014, 25,000 awarded shares (before the effect of the Share Subdivision) were granted to three independent non-executive directors of the Company (for the six months ended 30 June 2013: no awarded share was granted to any director of the Company).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the six months ended 30 June 2014 was HKD109.35 per share (equivalent to approximately RMB86.40 per share) after the effect of the Share Subdivision (during the six months ended 30 June 2013: HKD299.56 per share (equivalent to approximately RMB240.97 per share) before the effect of the Share Subdivision).

The outstanding awarded shares as of 30 June 2014 are divided into two to six tranches on an equal basis as at their grant date. The first tranche can be exercised immediately or after a specified period ranging from three months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

In 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to a shareholders' resolution passed at the annual general meeting of the Company held on 11 May 2011. The Board may, at its absolute discretion, select any employee of the Group to participate in the EIS by subscribing for the partnership interest at cash consideration. The total cash contribution by selected employees of the EIS is insignificant to the Group. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS, ranging from 4 to 7 years. A wholly-owned subsidiary of the Company which acts as a general partner of the EIS administrates and in essence, controls it. The EIS is therefore consolidated by the Company. In addition, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expenses of which for the six months ended 30 June 2014 and 2013 were considered not significant to the Group by the directors of the Company.



Notes to the Interim Financial Information

13 SHARE-BASED PAYMENTS (continued)

(d) Share options and restricted share award schemes adopted by non-wholly owned subsidiaries

Certain non-wholly owned subsidiaries of the Group operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches. Some non-wholly owned subsidiaries' participants have the right to request the Group to repurchase their vested equity interest in those non-wholly owned subsidiaries ("Repurchase Transaction"). For certain of those participants, the Group have discretion to settle the Repurchase Transaction by using either equity instruments of the Group or by cash. For the Repurchase Transaction which the Group having settlement options, there are certain portions that the directors of the Company are currently of the view that they would be settled by equity instruments of the Group and they are accounted for using the equity-settled share-based payment method. The remaining portion is accounted for as cash-settled share-based payments.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the share option and share award schemes (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 30 June 2014, the Expected Retention Rate for the grantees from the Group's wholly-owned subsidiaries was assessed to be 91% (31 December 2013: 91%).



Notes to the Interim Financial Information

14 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
0 - 30 days	3,800	4,063
31 - 60 days	762	1,147
61 - 90 days	1,121	366
Over 90 days	2,679	1,104
	<u>8,362</u>	<u>6,680</u>

15 OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Staff costs and welfare accruals	3,070	3,085
Marketing and administrative expense accruals	1,646	1,440
Prepayments received from customers and eCommerce business (Note)	6,363	4,045
Running royalty fee for online games	–	30
Purchase consideration payables for business combinations	15	11
Others	2,423	1,635
	<u>13,517</u>	<u>10,246</u>

Note:

Certain prepayments received from eCommerce business were recorded as restricted cash.



Notes to the Interim Financial Information

16 LONG-TERM PAYABLES

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	980	1,297
Purchase consideration payables for business combinations	111	99
Running royalty fee for online games	–	37
Others	136	167
	<u>1,227</u>	<u>1,600</u>

17 BORROWINGS

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
– Unsecured (Note)	4,030	3,323
Included in current liabilities:		
RMB bank borrowings		
– Unsecured	145	150
USD bank borrowings		
– Unsecured	3,384	2,134
Current portion of long-term USD bank borrowings		
– Unsecured (Note)	1,261	305
	<u>4,790</u>	<u>2,589</u>
	<u>8,820</u>	<u>5,912</u>



Notes to the Interim Financial Information

17 BORROWINGS (continued)

Movement in the borrowings is analysed as follows:

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	5,912	3,183
Additions of bank borrowings	3,087	1,893
Repayments of bank borrowings	(251)	(2,187)
Currency translation differences	72	(49)
	<u>8,820</u>	<u>2,840</u>

Note:

The aggregate principal amount of long-term USD bank borrowings was USD860 million. Applicable interest rates are at LIBOR plus 1.37% to 1.97% per annum.

The unsecured long-term bank borrowings were repayable as follows:

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Within 1 year	1,261	305
Between 1 and 2 years	2,184	2,164
Between 2 and 5 years	1,846	1,159
	<u>5,291</u>	<u>3,628</u>

The fair value of the borrowings approximated to their carrying amounts as at 30 June 2014.



Notes to the Interim Financial Information

18 LONG-TERM NOTES PAYABLE

On 12 December 2011, the Company issued long-term notes (the “2011 Notes”) with an aggregate principal amount of USD600 million for general corporate purposes. The 2011 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 2011 Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the “2012 Notes”) with an aggregate principal amount of USD600 million for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2012 Notes have been listed on the Stock Exchange and will mature on 5 March 2018.

On 10 September 2013, the Company issued another long-term notes (the “2013 Notes”) with an aggregate principal amount of USD300 million for general corporate purposes. The 2013 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2013 Notes are non-publicly issued and will mature on 10 September 2015.

On 10 April 2014, the Company established a global medium term note programme (the “Programme”) under which it may issue medium term notes, in series of aggregate principal amount of up to USD5,000 million (or its equivalent in other currencies) to professional investors. These notes will be issued in series with different issue dates and terms and may be denominated in any currency subject to compliance with all relevant laws, regulations and directives. The Programme is listed on the Stock Exchange. The Company utilises the Programme as a platform to enhance its flexibility and efficiency for future funding or capital management from a medium to long term prospective.

On 29 April 2014, the Company issued two tranches of senior notes under the Programme with an aggregate principal amount of USD2,500 million, comprising USD500 million senior notes due 2017 (the “2014 Notes I”) and USD2,000 million senior notes due 2019 (the “2014 Notes II”). The 2014 Notes I bears an interest at 2.000% per annum, payable semi-annually in arrears on 2 November and 2 May of each year, beginning on 2 November 2014. The 2014 Notes II bears an interest at 3.375% per annum, payable semi-annually in arrears on 2 November and 2 May of each year, beginning on 2 November 2014. The net proceeds from the issuance of the 2014 Notes I and the 2014 Notes II amounted to approximately USD2,488 million (equivalent to approximately RMB15,306 million), after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. Both of the 2014 Notes I and 2014 Notes II have been listed on the Stock Exchange.

On 16 May 2014, the Company issued another tranche of senior notes under the Programme (the “2014 Notes III”) with an aggregate principal amount of HKD2,000 million due 2020. The 2014 Notes III bears an interest at 3.200% per annum, payable quarterly in arrears on 10 July, 10 October, 10 January and 10 April of each year, beginning on 10 July 2014. The net proceeds from the issuance of the 2014 Notes III amounted to approximately HKD1,998 million (equivalent to approximately RMB1,588 million), after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. The 2014 Notes III has been listed on the Stock Exchange.



Notes to the Interim Financial Information

18 LONG-TERM NOTES PAYABLE (continued)

There is no security or pledge undertaken by the Group for issuing these notes.

As at 30 June 2014, the aggregate fair value of these notes was RMB26,709 million. The fair value is calculated using the market price of the senior notes as at the balance sheet date.

19 DEFERRED INCOME TAXES

The movements of the deferred income tax assets/liabilities account were as follows:

	Deferred income tax assets RMB'Million	Unaudited Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2014	431	(1,441)	(1,010)
Charge to consolidated income statement (Note 23)	(115)	(1,082)	(1,197)
Credit to other comprehensive income	–	29	29
Withholding tax paid in relation to the remittance of dividends	–	575	575
Disposal of a subsidiary	–	11	11
Business combinations	–	(8)	(8)
Currency translation differences	1	(1)	–
At 30 June 2014	317	(1,917)	(1,600)
At 1 January 2013	169	(1,312)	(1,143)
Credit/(charge) to consolidated income statement	13	(199)	(186)
Charge to other comprehensive income	(8)	(65)	(73)
Withholding tax paid in relation to the remittance of dividends	–	187	187
Currency translation differences	–	1	1
At 30 June 2013	174	(1,388)	(1,214)



Notes to the Interim Financial Information

20 OTHER GAINS, NET

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Gains on disposals/deemed disposals of investees and businesses (Note)	1,082	25	3,799	25
Subsidies and tax rebates	45	15	52	56
Dividend income	64	7	69	445
Impairment provision for investees	(325)	–	(1,145)	–
Donation to Tencent Charity Fund	(100)	–	(250)	(120)
Others	(75)	35	(227)	27
	691	82	2,298	433

Note:

The disposal gain recognised in “Other gains, net” for the disposal of certain eCommerce related business (“Transferred Business”) of the Group, which forms as part of the investment consideration for the investment made in JD.com (Note 8(a)(i)), was RMB1,942 million, being the difference between the consideration for the Transferred Business and the net asset value of the transferred equity interests and assets at completion of the disposal of the Transferred Business.



Notes to the Interim Financial Information

21 EXPENSES BY NATURE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Employee benefits expenses (Note (a))	3,776	2,583	7,020	5,002
Content costs and agency fees (Note (b))	2,506	2,120	4,847	4,053
Cost of merchandise sold	1,395	2,006	3,747	3,736
Promotion and advertising expenses	1,463	843	2,768	1,447
Mobile and telecommunications charges and bandwidth and server custody fees	1,303	1,029	2,511	2,020
Depreciation of fixed assets (Note (a))	761	600	1,465	1,160
Amortisation of intangible assets (Note (b))	509	209	784	371
Operating lease rentals in respect of office buildings	257	211	513	415
Travelling and entertainment expenses	113	95	209	165

Note:

- (a) Research and development expenses for the three and six months ended 30 June 2014 were RMB1,881 million and RMB3,393 million (for the three and six months ended 30 June 2013: RMB1,241 million and RMB2,441 million, respectively), which included employee benefit expenses of RMB1,491 million and depreciation of fixed assets of RMB162 million for the three months ended 30 June 2014 (for the three months ended 30 June 2013: RMB1,002 million and RMB133 million, respectively) and employee benefit expenses of RMB2,692 million and depreciation of fixed assets of RMB312 million for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB1,989 million and RMB258 million, respectively). No research and development expenses had been capitalised for the three and six months ended 30 June 2014 and 2013.
- (b) Amortisation expense of licenses and licensed online contents were included in amortisation of intangible assets.



Notes to the Interim Financial Information

22 FINANCE (COSTS)/INCOME, NET

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Interest and related expenses	(224)	(92)	(336)	(190)
Exchange (losses)/gains	(130)	106	(256)	122
	<u>(354)</u>	<u>14</u>	<u>(592)</u>	<u>(68)</u>

Interest and related expenses mainly arose from the borrowings (Note 17) and long-term notes payable (Note 18). No interest was capitalised for the three and six months ended 30 June 2014 (for the three and six months ended 30 June 2013: Nil).

23 TAX EXPENSE

(a) Income tax expense

- (i) Cayman Islands and British Virgin Islands Corporate Income 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 2014 and 2013.

- (ii) 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 2014 and 2013.



Notes to the Interim Financial Information

23 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(iii) PRC Corporate Income Tax

Corporate Income Tax (“CIT”) provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the three and six months ended 30 June 2014 and 2013, 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 promulgated by the Tenth National People’s Congress on 16 March 2007 (the “CIT Law”), the CIT rate is 25% for domestic and foreign enterprise in 2014.

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. As at 30 June 2014, these subsidiaries were in the process of renewing such entitlements by applying to the relevant government authorities. The directors of the Company are of the view that these subsidiaries have used their applicable CIT rates (15% or 25%), to make their CIT provision for the three and six months ended 30 June 2014. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates for 2013 and 2014 were further reduced to 10%.

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.

(iv) United States Corporate Income Tax

United States CIT provision was provided for the three and six months ended 30 June 2014 and 2013 for the entities within the Group which were incorporated in the US with estimated assessable profits, at applicable tax rate of 36%.

(v) Corporate Income Tax in other countries

CIT provision has been provided for the three and six months ended 30 June 2014 and 2013 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35%.



Notes to the Interim Financial Information

23 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(vi) 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 Mainland China and Hong Kong, the relevant withholding tax rate could be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

The income tax expense of the Group for the three and six months ended 30 June 2014 and 2013 are analysed as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Current tax	1,229	867	1,653	1,769
Deferred income tax (Note 19)	457	59	1,197	186
	<u>1,686</u>	<u>926</u>	<u>2,850</u>	<u>1,955</u>



Notes to the Interim Financial Information

23 TAX EXPENSE (continued)

(a) Income tax expense (continued)

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 2014 and 2013, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Profit before income tax	7,512	4,610	15,108	9,710
Share of profit of associates and joint ventures	(23)	(31)	(67)	(150)
	<u>7,489</u>	<u>4,579</u>	<u>15,041</u>	<u>9,560</u>
Tax calculated at a tax rate of 25%	1,872	1,145	3,760	2,390
Effects of different tax rates applicable to different subsidiaries of the Group	(856)	(423)	(2,509)	(849)
Effects of tax holiday on assessable profits of subsidiaries	(121)	(21)	(185)	(43)
Income not subject to tax	–	(43)	–	(79)
Expenses not deductible for tax purposes	253	81	503	155
Withholding tax on earnings expected to be remitted by PRC subsidiaries	350	70	800	212
Unrecognised deferred income tax assets	220	98	478	150
Others	(32)	19	3	19
Income tax expense	<u>1,686</u>	<u>926</u>	<u>2,850</u>	<u>1,955</u>



Notes to the Interim Financial Information

23 TAX EXPENSE (continued)

(b) Value-added tax, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax (“VAT”)	6-17%	Sales value of goods sold and service fee income, offsetting by VAT on purchases
	3%	Sales value of goods sold and services fee income
Business tax (“BT”)	3-5%	Services fee income
City construction tax	7%	Net VAT and BT payable amount
Construction fee for cultural undertakings	3%	Advertising income
Educational surcharge	5%	Net VAT and BT payable amount

24 EARNINGS PER SHARE

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (“EPS”) for the three and six months ended 30 June 2014 has been adjusted for the Share Subdivision.

(a) Basic

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (RMB’Million)	<u>5,836</u>	<u>3,680</u>	<u>12,293</u>	<u>7,724</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	<u>9,237</u>	<u>9,159</u>	<u>9,231</u>	<u>9,167</u>
Basic EPS (Note) (RMB per share)	<u>0.632</u>	<u>0.402</u>	<u>1.332</u>	<u>0.843</u>

Note:

Weighted average number of ordinary shares in issue and basic EPS were stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.



Notes to the Interim Financial Information

24 EARNINGS PER SHARE (continued)

(b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. 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 2014, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (RMB' Million)	<u>5,836</u>	<u>3,680</u>	<u>12,293</u>	<u>7,724</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	<u>9,237</u>	9,159	<u>9,231</u>	9,167
Adjustments for share options (Note) (million shares)	<u>40</u>	86	<u>45</u>	91
Adjustments for awarded shares (Note) (million shares)	<u>84</u>	69	<u>85</u>	69
Weighted average number of ordinary shares for the calculation of diluted EPS (Note) (million shares)	<u>9,361</u>	9,314	<u>9,361</u>	9,327
Diluted EPS (Note) (RMB per share)	<u><u>0.623</u></u>	<u>0.395</u>	<u><u>1.313</u></u>	<u>0.828</u>

Note:

Weighted average number of ordinary shares in issue, adjustments for share options, adjustments for awarded shares, weighted average number of ordinary shares for the calculation of diluted EPS and diluted EPS were stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.



Notes to the Interim Financial Information

25 DIVIDENDS

A final dividend in respect of the year ended 31 December 2013 of HKD1.20 per share before the effect of the Share Subdivision, or HKD0.24 per share after the effect of the Share Subdivision (2012: HKD1.00 per share before the effect of the Share Subdivision) was proposed pursuant to a resolution passed by the Board on 19 March 2014 and approved by the shareholders at the 2014 AGM. Such dividend, which excluded the dividends related to the shares held for the Share Award Schemes, amounted to RMB1,761 million (final dividend for 2012: RMB1,468 million), was paid/payable as at 30 June 2014.

The Board did not propose any interim dividend for the six months ended 30 June 2014 and 2013.

26 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 30 June 2014.

27 COMMITMENTS

(a) Capital commitments

Capital commitments as at 30 June 2014 and 31 December 2013 are analysed as follows:

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	1,835	2,166
Purchase of other fixed assets	408	403
Capital investment in investees	3,885	854
	6,128	3,423
Authorised but not contracted:		
Construction/purchase of buildings and purchase of land use rights	841	851
	6,969	4,274



Notes to the Interim Financial Information

27 COMMITMENTS (continued)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	733	760
Later than one year and not later than five years	1,596	2,013
Later than five years	1,293	1,455
	<u>3,622</u>	<u>4,228</u>

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases, online game licensing and contents agreements are as follows:

	Unaudited	Audited
	30 June	31 December
	2014	2013
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	1,477	1,397
Later than one year and not later than five years	1,473	1,299
	<u>2,950</u>	<u>2,696</u>



Notes to the Interim Financial Information

28 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 8 (loans to associates and transactions with associates), Note 13 (share option and share award schemes) to this Interim Financial Information, the Group had no other material transactions undertaken with related parties for the six months ended 30 June 2014, and no other material related parties' balances as at 30 June 2014.

29 SUBSEQUENT EVENT

Investment in CJ Games Corporation (“CJ Games”)

In March 2014, the Group entered into a series of agreements, upon the completion of which, the Group would own, in aggregate, approximately 28% of equity interests of CJ Games on a fully-diluted basis, at a consideration of KRW533,000 million. CJ Games is an online and mobile games developer and publisher in the Republic of Korea. The investment was completed in August 2014, and thereafter, CJ Games becomes an associate of the Group.



Other Information

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2014, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) LONG POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of director	Nature of interests	Number of shares/ underlying shares held (Note 1)	Percentage of issued share capital
Ma Huateng	Corporate (Note 2)	949,464,400	10.16%
Lau Chi Ping Martin	Personal *	48,268,000 (Note 3)	0.52%
Li Dong Sheng	Personal *	25,000 (Note 4)	0.0003%
Iain Ferguson Bruce	Personal *	460,000 (Note 5)	0.005%
Ian Charles Stone	Personal * Family +	125,000 <hr/> 300,000 425,000 (Note 6)	0.005%

Note:

1. Upon the Share Subdivision became effective on 15 May 2014, pro-rata adjustments have been made to the number of shares and underlying shares of the Company accordingly.
2. These shares are held by Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng.
3. The interest comprises 38,268,000 shares and 10,000,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out below under "Share Option Schemes".



Other Information

4. The interest comprises 25,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
 5. The interest comprises 370,000 shares and 90,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
 6. The interest comprises 345,000 shares and 80,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
- * Interests of beneficial owner
- + Interests of spouse or child under 18 as beneficial owner

(B) LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATIONS

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Tencent Computer	Personal	RMB16,285,710 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2014.



Other Information

SHARE OPTION SCHEMES

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, under which the directors of the Company may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I. Movements of the options under the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III are detailed in Note 13 to the Interim Financial Information as included in this interim report.

As at 30 June 2014, there were a total of 10,000,000 outstanding share options granted to the directors of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options								
		Before Share Subdivision				After Share Subdivision				
		As at 1 January 2014	Granted during the period	Exercised during the period	Outstanding balance subject to adjustment for Share Subdivision	Granted during the period	Exercised during the period	As at 30 June 2014 (Note 1)	Exercise price HKD (Note 1)	Exercise period
Lau Chi Ping Martin	5 July 2007	2,000,000	—	—	2,000,000	—	10,000,000 (Note 5)	—	6.61	5 July 2010 to 4 July 2014 (Note 2)
	24 March 2010	1,000,000	—	—	1,000,000	—	—	5,000,000	31.70	24 March 2015 to 23 March 2020 (Note 3)
	25 March 2014 (Note 6)	—	1,000,000	—	1,000,000	—	—	5,000,000	114.52	25 March 2015 to 24 March 2021 (Note 4)
Total:		<u>3,000,000</u>	<u>1,000,000</u>	<u>—</u>	<u>4,000,000</u>	<u>—</u>	<u>10,000,000</u>	<u>10,000,000</u>		



Other Information

Note:

1. Upon the Share Subdivision became effective on 15 May 2014, pro-rata adjustments have been made to the exercise prices and the number of outstanding share options accordingly.
2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised three years after the grant date, and 20% each of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.
3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the option can be exercised five years after the grant date, and 25% each of the total options will become exercisable in each subsequent year.
4. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised one year after the grant date, and 20% each of the total options will become exercisable in each subsequent year.
5. The weighted average closing price immediately before the dates on which the options were exercised by the director was as follows:

Name of director	Closing price HKD
Lau Chi Ping Martin	113.6

6. The closing price immediately before the date on which the options were granted on 25 March 2014 was HKD587, which was adjusted to HKD117.4 after the Share Subdivision.
7. No options were cancelled or lapsed during the period.



Other Information

SHARE AWARD SCHEMES

The Company has adopted two share award schemes, namely, the 2007 Share Award Scheme and the 2013 Share Award Scheme, in which eligible participants (including any director) of the Group will be entitled to participate.

2007 Share Award Scheme

Unless early terminated by the Board, the 2007 Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date I. The maximum number of shares which can be awarded under the 2007 Share Award Scheme and to a Selected Participant are limited to two percent (i.e. 35,755,232 shares, which were adjusted to 178,776,160 shares after the Share Subdivision) and one percent (i.e. 17,877,616 shares, which were adjusted to 89,388,080 shares after the Share Subdivision) of the issued share capital of the Company respectively as at the Adoption Date I.

Pursuant to the 2007 Share Award Scheme, the Board shall select the Eligible Persons for participation in the 2007 Share Award Scheme and determine the number of shares to be awarded.

The Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the Awarded Shares will be conditional on the Selected Participants satisfying all vesting conditions specified by the Board at the time of making the award and, for the majority of the Selected Participants, the relevant Awarded Shares will be transferred to the Selected Participants on or about the relevant vesting dates.



Other Information

2013 Share Award Scheme

The 2013 Share Award Scheme shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant. The maximum number of shares which can be granted under the 2013 Share Award Scheme and to an Selected Participant are limited to three percent (i.e. 55,787,452 shares, which were adjusted to 278,937,260 shares after the Share Subdivision) and one percent (i.e. 18,595,817 shares, which were adjusted to 92,979,085 shares after the Share Subdivision) of the issued share capital of the Company respectively as at the Adoption Date II.

Pursuant to the 2013 Share Award Scheme, the Board may, from time to time, at its absolute discretion select any Eligible Person to be a Selected Participant and grant to such Selected Participant Awarded Shares.

The vesting of the Awarded Shares is subject to the Selected Participant remaining at all times after the Grant Date and on the date of vesting, an Eligible Person, subject to the rules of the 2013 Share Award Scheme. Subject to the satisfaction of all vesting conditions as prescribed in the 2013 Share Award Scheme, the Selected Participants will be entitled to receive the Awarded Shares.

For the above two share award schemes, upon granting of the Awarded Shares, shares will be acquired by an independent trustee at the cost of the Company or shares will be allotted to the independent trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time and be held in trust for the Selected Participants, excluding the directors and substantial shareholders of the Group, until the end of each vesting period. Vested shares will be transferred at no cost to the Selected Participants.

During the six months ended 30 June 2014, a total of 6,514,325 Awarded Shares (after the effect of the Share Subdivision) were granted under the 2007 Share Award Scheme and out of which, 125,000 Awarded Shares (after the effect of the Share Subdivision) were granted to the independent non-executive directors of the Company. Details of the movements in the Share Award Schemes during the six months ended 30 June 2014 are set out in Note 13 to the Interim Financial Information as included in this interim report.



Other Information

As at 30 June 2014, there were a total of 195,000 outstanding Awarded Shares granted to directors of the Company, details of which are as follows:

Name of director	Date of grant	Number of Awarded Shares Before Share Subdivision			Outstanding balance subject to adjustment for Share Subdivision	As at 30 June 2014	Vesting period
		As at 1 January 2014	Granted during the period	Vested during the period			
Iain Ferguson Bruce	17 March 2011	12,000	—	4,000	8,000	40,000	17 March 2012 to 17 March 2016
	24 March 2014	—	10,000	—	10,000	50,000	24 March 2015 to 24 March 2019
	Total:	12,000	10,000	4,000	18,000	90,000	
Ian Charles Stone	17 March 2011	9,000	—	3,000	6,000	30,000	17 March 2012 to 17 March 2016
	24 March 2014	—	10,000	—	10,000	50,000	24 March 2015 to 24 March 2019
	Total:	9,000	10,000	3,000	16,000	80,000	
Li Dong Sheng	24 March 2014	—	5,000	—	5,000	25,000	24 March 2015 to 24 March 2019
Grand Total:		21,000	25,000	7,000	39,000	195,000	

Note:

1. Upon the Share Subdivision became effective on 15 May 2014, pro-rata adjustments have been made to the number of outstanding Awarded Shares granted to directors of the Company accordingly.
2. No Awarded Shares were granted or vested after the Share Subdivision.



Other Information

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 42, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 5th Shenzhen Municipal People's Congress and the 12th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 20 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which holds shares of the Company and also a substantial shareholder of the Company. Mr Ma is entitled to an annual base salary of RMB4,882,800 in 2014 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.

Lau Chi Ping Martin, age 41, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science degree in Electrical Engineering from the University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong. On 10 March 2014, Mr Lau was appointed as a director of JD.com, Inc., an online direct sales company in China, which has been listed on NASDAQ since May 2014. On 31 March 2014, Mr Lau was appointed as a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, which has been listed on New York Stock Exchange since April 2014. Mr Lau is entitled to an annual base salary of USD788,400 in 2014 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.



Other Information

Jacobus Petrus Bekker, also known as Koos, age 61, has been a non-executive director since November 2012. Mr Bekker is one of the founding members of M-Net/ MultiChoice South Africa pay-television business in 1985. He was also a founder of the cellular telephony business MTN. From 1997 to March 2014, Mr Bekker was the managing director and Chief Executive Officer of Naspers Limited, a company listed on the Johannesburg Stock Exchange and the controlling shareholder of the Company. He is at present the chairman designate. He served on the local organising committee for the 2010 FIFA World Cup. Mr Bekker obtained a Bachelor of Arts degree in law and an honours degree in languages at the University of Stellenbosch in 1974 and 1975 respectively. He also obtained a Bachelor of Laws degree from University of the Witwatersrand in 1978 and an MBA degree from Columbia University in 1984. Mr Bekker was awarded an honorary doctorate degree in commerce from the University of Stellenbosch. Mr Bekker as a non-executive director is not entitled to any director's fee or emoluments.

Charles St Leger Searle, age 50, has been a non-executive director since June 2001. Mr Searle is currently Chief Executive Officer of Naspers Internet Listed Assets. Prior to joining the Naspers group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with Naspers Limited, the controlling shareholder of the Company, and he is a director of Mail.ru Group Limited that is listed on London Stock Exchange. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 20 years of experience in the telecommunications and Internet industries. Mr Searle as a non-executive director is not entitled to any director's fee or emoluments.

Li Dong Sheng, age 57, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange. Mr Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on New York Stock Exchange Euronext. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 19 years of experience in the information technology field. Mr Li is entitled to a director's fee of HKD550,000 per annum for the year 2014, which is determined with reference to his duties and responsibilities with the Company.



Other Information

Iain Ferguson Bruce, age 73, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 49 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is the Chairman of KCS Limited, and is an independent non-executive director of Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Louis XIII Holdings Limited (formerly known as Paul Y. Engineering Group Limited), a construction, engineering services and hotel development company, Sands China Ltd., an operator of integrated resorts and casinos, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the Stock Exchange. Mr Bruce is also an independent non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce was an independent non-executive director of China Medical Technologies, Inc., a China-based medical device company that was listed on NASDAQ, up to 3 July 2012. Mr Bruce is entitled to a director's fee of HKD900,000 per annum for the year 2014, which is determined with reference to his duties and responsibilities with the Company.

Ian Charles Stone, age 63, has been an independent non-executive director since April 2004. Mr Stone is currently an Advisor on International Projects for PCCW Limited and Chief Executive Officer of SITC (a PCCW joint venture) in Saudi Arabia. Since 2001 in PCCW he has been Chief Executive Officer of UK Broadband in UK and then PCCW Mobile in Hong Kong, followed by being the Managing Director of the International Projects business. Mr Stone has more than 43 years of experience in the telecom and mobile industries. He was Chief Executive Officer of SmarTone between 1999 and 2001 prior to which held various senior positions in telecom businesses of the First Pacific Group in Hong Kong and Philippines. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom, including as Managing Director of CSL and Commercial Director of Hong Kong Telecom. Mr Stone is a fellow member of The Hong Kong Institute of Directors. Mr Stone is entitled to a director's fee of HKD700,000 per annum for the year 2014, which is determined with reference to his duties and responsibilities with the Company.



Other Information

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

LONG/ SHORT POSITIONS IN THE SHARES OF THE COMPANY

Name of shareholder	Long/ short position	Nature of interest/ capacity	Number of shares/ underlying shares held	Percentage of issued share capital
MIH TC	Long position	Corporate (Note 2)	3,151,201,900 (Note 1)	33.73%
Advance Data Services Limited	Long position	Corporate (Note 3)	949,464,400 (Note 1)	10.16%
JPMorgan Chase & Co.	Long position	Beneficial owner	91,354,473	
		Investment manager	92,690,085	
		Trustee (other than a bare trustee)	24,860	
		Custodian	342,304,980	
		Total (Note 4(i)):	526,374,398	5.63%
	Short position	Beneficial owner (Note 4(ii))	112,032,859	1.20%

Note:

1. Upon the Share Subdivision became effective on 15 May 2014, pro-rata adjustments have been made to the number of shares of the Company accordingly.
2. MIH TC is controlled by Naspers Limited through its wholly-owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited are deemed to be interested in the same block of 3,151,201,900 shares under Part XV of the SFO.
3. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has interest in these shares as disclosed under the section of "Directors' Interests in Securities".



Other Information

4. (i) Such long position includes derivative interests in 45,423,777 underlying shares of the Company of which 15,421,760 underlying shares are derived from listed and physically settled derivatives, 5,860,500 underlying shares are derived from listed and cash settled derivatives, 7,024,522 underlying shares are derived from unlisted and physically settled derivatives and 17,116,995 underlying shares are derived from unlisted and cash settled derivatives. It also includes 342,304,980 shares in lending pool.
- (ii) Such short position includes derivative interests 95,366,609 underlying shares of the Company of which 5,835,080 underlying shares are derived from listed and physically settled derivatives, 62,860,950 underlying shares are derived from listed and cash settled derivatives, 5,217,616 underlying shares are derived from unlisted and physically settled derivatives and 21,452,963 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 30 June 2014, had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2014, the Company repurchased 153,000 shares, which was adjusted to 765,000 shares after the Share Subdivision, on the Stock Exchange for an aggregate consideration of approximately HKD76.7 million before expenses. The repurchased shares were subsequently cancelled. The repurchase was 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 2014	Before Share Subdivision			After Share Subdivision			Aggregate consideration paid HKD
	No. of shares purchased	Purchase consideration per share		No. of shares purchased	Purchase consideration per share		
		Highest price paid HKD	Lowest price paid HKD		Highest price paid HKD	Lowest price paid HKD	
April	153,000	503.5	499.0	765,000	100.7	99.8	76,736,584

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 2014.



Other Information

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2014, the Group had 24,993 employees (30 June 2013: 25,517). 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 incurred by the Group for the six months ended 30 June 2014 was RMB7,020 million (for the six months ended 30 June 2013: RMB5,002 million).

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group 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 2014.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The directors of the Company have complied with such code of conduct throughout the accounting periods covered by this interim report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in the corporate governance report in the 2013 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 CG Code during the period from 1 January 2014 to 30 June 2014.

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.



Definition

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

Term	Definition
“2007 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date I, as amended
“2013 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date II
“58.com”	58.com Inc., a company incorporated under the laws of the Cayman Islands whose American depositary shares are listed on the New York Stock Exchange
“ACGs”	advanced casual games
“Adoption Date I”	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
“Adoption Date II”	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
“ARPU”	average revenue per user
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Awarded Shares”	the shares of the Company awarded under the Share Award Schemes
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
“Cheetah Mobile”	Cheetah Mobile Inc., a limited liability company incorporated in the Cayman Islands whose American depositary shares are listed on the New York Stock Exchange



Definition

Term	Definition
“ChinaVision”	ChinaVision Media Group Limited (currently known as Alibaba Pictures Group Limited), a limited liability company incorporated in Bermuda and the shares of which are listed on the Stock Exchange
“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
“Dianping”	Dianping Holdings Ltd., a limited liability company incorporated in the Cayman Islands
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person”	a person who is eligible to participate in the respective Share Award Schemes
“EPS”	earnings per share
“EUR”	the common currency that have been adopted by the 18 European Union countries
“GAAP”	Generally Accepted Accounting Principles
“Grant Date”	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IFRS”	International Financial Reporting Standards



Definition

Term	Definition
“IPO(s)”	initial public offering(s)
“JD.com”	JD.com, Inc., a limited liability company incorporated in the Cayman Islands whose American depository shares are listed on the NASDAQ
“Kingsoft”	Kingsoft Corporation Limited, a limited liability company existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“KRW”	Korea Won, the lawful currency of the Republic of Korea
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“Mail.ru”	Mail.ru Group Limited, a limited liability company incorporated in the British Virgin Islands whose global depository receipts are traded on the London Stock Exchange
“MAU”	monthly active user accounts
“MIH TC”	MIH TC Holdings Limited
“MMOGs”	massively multi-player online game(s), a form of computer game that involves a large number of user playing a game online simultaneously
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NASDAQ”	NASDAQ Global Select Market
“NavInfo”	NavInfo Co., Ltd., a limited liability company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange



Definition

Term	Definition
“O2O”	online to offline
“PC(s)”	personal computer(s)
“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
“RMB”	the lawful currency of the PRC
“Selected Participant(s)”	any Eligible Persons selected by the Board to participate in the respective Share Award Schemes
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013
“Share Subdivision”	with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and the Stock Exchange granting the listing of, and permission to deal in, the subdivided shares
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited



Definition

Term	Definition
“Sogou”	Sogou Inc., a limited liability company incorporated in the Cayman Islands
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“USD”	the lawful currency of the United States of America
“VAS”	value-added services





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