

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)

20TH ANNIVERSARY



smart communication inspires

智慧溝通 靈感無限

2018

Interim Report

CONTENTS

2	Corporate Information
3	Financial Performance Highlights
5	Chairman’s Statement
11	Management Discussion and Analysis
24	Report on Review of Interim Financial Information
25	Consolidated Income Statement
26	Consolidated Statement of Comprehensive Income
27	Consolidated Statement of Financial Position
30	Consolidated Statement of Changes in Equity
32	Consolidated Statement of Cash Flows
34	Notes to the Interim Financial Information
81	Other Information
98	Definition



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
Yang Siu Shun

AUDIT COMMITTEE

Yang Siu Shun (*Chairman*)
(re-designated with effect from
the conclusion of the 2018 AGM)
Iain Ferguson Bruce
Ian Charles Stone
Charles St Leger Searle

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)
Iain Ferguson Bruce
Ian Charles Stone
Yang Siu Shun

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 BANKERS

Bank of China Limited
The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Cricket Square
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Cayman Islands

TENCENT GROUP HEAD OFFICE

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
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COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

Financial Performance Highlights

SECOND QUARTER OF 2018

	30 June 2018	Unaudited Three months ended		31 March 2018	Quarter- on-quarter change
		30 June 2017	Year- on-year change		
(RMB in millions, unless specified)					
Revenues	73,675	56,606	30%	73,528	–
Gross profit	34,446	28,306	22%	37,042	-7%
Operating profit	21,807	22,560	-3%	30,692	-29%
Profit for the period	18,580	18,254	2%	23,973	-22%
Profit attributable to equity holders of the Company	17,867	18,231	-2%	23,290	-23%
Non-GAAP profit attributable to equity holders of the Company	19,716	16,391	20%	18,313	8%
EPS (RMB per share)					
– basic	1.893	1.939	-2%	2.470	-23%
– diluted	1.868	1.914	-2%	2.435	-23%
Non-GAAP EPS (RMB per share)					
– basic	2.089	1.743	20%	1.942	8%
– diluted	2.062	1.721	20%	1.915	8%

Financial Performance Highlights

FIRST HALF OF 2018

	Unaudited		
	Six months ended		
	30 June 2018	30 June 2017	Year-on-year change
	(RMB in millions, unless specified)		
Revenues	147,203	106,158	39%
Gross profit	71,488	53,749	33%
Operating profit	52,499	41,832	25%
Profit for the period	42,553	32,802	30%
Profit attributable to equity holders of the Company	41,157	32,707	26%
Non-GAAP profit attributable to equity holders of the Company	38,029	30,602	24%
EPS (RMB per share)			
– basic	4.363	3.480	25%
– diluted	4.303	3.436	25%
Non-GAAP EPS (RMB per share)			
– basic	4.031	3.256	24%
– diluted	3.976	3.215	24%

Chairman's Statement

I am pleased to present our interim report for the three and six months ended 30 June 2018 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 2018 decreased by 2% and increased by 26% on a year-on-year basis to RMB17,867 million and RMB41,157 million respectively. Basic EPS for the three and six months ended 30 June 2018 were RMB1.893 and RMB4.363 respectively. Diluted EPS for the three and six months ended 30 June 2018 were RMB1.868 and RMB4.303 respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the three and six months ended 30 June 2018 increased by 20% and 24% on a year-on-year basis to RMB19,716 million and RMB38,029 million respectively. Non-GAAP basic EPS for the three and six months ended 30 June 2018 were RMB2.089 and RMB4.031 respectively. Non-GAAP diluted EPS for the three and six months ended 30 June 2018 were RMB2.062 and RMB3.976 respectively.

BUSINESS REVIEW AND OUTLOOK

Company Financial Performance

In the second quarter of 2018

Revenues increased by 30% year-on-year, driven primarily by payment related services, digital content subscriptions and sales, social and others advertising, and smart phone games.

Non-GAAP operating profit increased by 11% year-on-year.

Profit attributable to equity holders of the Company slightly decreased by 2% year-on-year, mainly due to lower net other gains generated from investment related items compared to the same period last year. Non-GAAP profit attributable to equity holders increased by 20% year-on-year.

Chairman's Statement

Company Strategic Highlights

Key strategic initiatives in recent months include:

- Expanding the capabilities and usage of Mini Programs by integrating them with other digital tools, such as Weixin Pay, to provide customised solutions for a broader range of verticals. As the company leading Mini Programs innovation, we have built up a sizable developer ecosystem with a large and expanding base of external developers and software integrators, as well as a consumer base of over 200 million DAUs. We view Mini Programs as complementary to native mobile apps, and believe Mini Programs will contribute materially to our user experience, to our enterprise relationships, and to the development of our payment, advertising and cloud businesses.
- Deepening user engagement on our social networks, content services, and utility apps by launching innovative features and products appealing to users. For example, we have notably increased user time spent on QQ KanDian, the news feed feature within our QQ app, and on Mobile QQ Browser, our mobile browser product, via inclusion of short and mini video feeds. During the quarter, the total daily page views of QQ KanDian and Mobile QQ Browser together increased 55% year-on-year, while the total daily short video views of the two properties combined climbed over 3 times, year-on-year.
- Reallocating capital to high priority projects. Recently, we have invested aggressively in game live broadcast services, which we view as supportive to our game platform, and in smart retail opportunities, which we view as supportive to our payment and cloud services. We have partially funded these investments by monetising some existing investments, for example, exiting our positions in investee companies Ele.me and Mobike.

Looking forward, we are seeking to reinvigorate our mobile game revenue growth, via initiatives including deepening engagement with our existing major titles, monetising the proven popularity of tactical tournament games, launching a broader range of games in high-ARPU categories (such as the RPG genre), and increasing contributions from publishing our China-developed games internationally. While we expect these measures will require several months to take effect, we are encouraged by the ongoing growth in the number of DAUs playing our mobile games, and in our belief that our monetisation per DAU offers substantial upside to match the levels already enjoyed by our industry peers.

Chairman's Statement

Company Business Highlights

Operating Information

	As at 30 June 2018	As at 30 June 2017	Year- on-year change	As at 31 March 2018	Quarter- on-quarter change
MAU of QQ	803.2	850.1	-5.5%	805.5	-0.3%
Smart device MAU of QQ	708.6	662.3	7.0%	694.1	2.1%
Combined MAU of Weixin and WeChat	1,057.7	962.8	9.9%	1,040.0	1.7%
MAU of Qzone	548.3	605.8	-9.5%	562.3	-2.5%
Smart device MAU of Qzone	542.7	585.7	-7.3%	550.0	-1.3%
Fee-based VAS registered subscriptions	153.9	118.1	30.3%	147.1	4.6%

Communication and Social

- *QQ*: Smart device MAU increased by 7.0% year-on-year to 708.6 million. User activities benefited from new entertainment-driven features and content appealing for young users. Smart device MAU and DAU for users aged 21 years or below each achieved double-digit growth year-on-year. QQ KanDian, our news feed service within QQ, enhanced its recommendation algorithm for short and mini videos, driving daily video views to more than double quarter-on-quarter.
- *Weixin and WeChat*: MAU reached 1,057.7 million, representing year-on-year growth of 9.9%. Riding on the swift growth of Mini Programs and Weixin Pay use cases, DAU grew at a faster pace than MAU, reflecting greater user engagement and stickiness. User activities in Weixin Mini Games and Moments continued to increase, driving up time spent per user per day in those activities.

Online Games

Smart phone games revenues (including smart phone games revenues attributable to our social networks business) grew 19% year-on-year and declined 19% sequentially to RMB17.6 billion, mainly due to non-monetisation of popular tactical tournament games and timing of new game releases. In China, DAU for our smart phone games grew at a double-digit rate year-on-year, but monetisation per user declined as users shifted time to non-monetised tactical tournament games. During the quarter, we focused on user engagement of our existing titles, and particularly on winning the domestic competition amongst tactical tournament games for users. Also, five of seven new games were published in the latter part of the quarter. Looking forward, we are seeking to execute several initiatives to reinvigorate growth, including:

Chairman's Statement

- Monetising the proven popularity of tactical tournament games.
- Boosting engagement and ultimately monetisation of existing games — for example, Honour of Kings launched a new survival play mode.
- Launching new games in high ARPU categories — for example, MT4, a new game in the high ARPU MMORPG category, has ranked among China's top 3 game grossing chart in the iOS app store since its July launch.
- Capturing suitable international monetisation opportunities — for example, we view our internally developed games Arena of Valor and PUBG MOBILE, as highly suitable for expansion to gamers outside China. Arena of Valor has built up over 13 million DAUs and over USD30 million grossing per month in the first half of the year outside China. PUBG MOBILE has attracted over 14 million DAUs (excluding Japan and Korea) and generated over USD20 million grossing in July outside China.

PC client games revenues were down by 5% year-on-year and down by 8% quarter-on-quarter to RMB12.9 billion. The year-on-year revenue decline was due to users' time shift to mobile games while the sequential revenue decline was due to weak seasonality. However, we believe our core users remained loyal to key titles. For instance, DnF introduced marketing activities celebrating the 10th anniversary of its China launch in June, driving year-on-year growth in paying users and ARPU for the quarter. LoL's DAU in China increased quarter-on-quarter, benefiting from the popularity of its mid-season invitational (MSI) event in Paris, which was won by a Chinese team.

Digital Content

Our total fee-based VAS subscriptions were up by 30% year-on-year to 154 million subscriptions, primarily driven by strong uptake of video subscription services. Digital content revenues grew substantially year-on-year and at a high single digit percentage rate quarter-on-quarter, benefiting from take-up of our market leading video and music subscription services, as well as from healthy usage of, and monetisation on, our live broadcasting and online literature products. Our video services achieved 74 million subscriptions, up 121% year-on-year and maintaining our industry-leading position in China. We attribute this success primarily to our exclusive content in key video genres. For instance, an exclusive drama series, Legend of Fuyao, which was sourced from an IP developed with our listed subsidiary China Literature, was ranked the number one exclusive drama series by video views industry-wide in the first half of the year. Our self-commissioned variety show, Produce 101, was ranked the number one online variety show by video views industry-wide. Additionally, our Chinese anime traffic more than doubled on a year-on-year basis, leading the industry in terms of video views, thanks to our strong IPs and proven production capabilities.

Our mini video sharing app, WeiShi, added innovative features, such as AI-based beautifying tools, and online voting functionality to deepen celebrity-fans interaction. We saw robust daily video views growth for mini videos across several of our apps, including Mobile QQ, Mobile QQ Browser and the WeiShi app itself.

Chairman's Statement

Online Advertising

Our online advertising business achieved 39% year-on-year and 32% quarter-on-quarter growth in revenues.

For media advertising, revenues grew by 16% year-on-year and 43% quarter-on-quarter. Our video advertising revenues benefited from advertising sponsorships of our strengthening content portfolio, such as our variety show Produce 101, and from positive seasonality on a quarter-on-quarter basis. Our news advertising revenues recorded a single-digit year-on-year decline due to a reduction in monetisation that we undertook starting in the third quarter of 2017, but achieved quarter-on-quarter growth rate as we stepped up the advertising load for our news feed products after completion of our advertising system revamp, as well as benefiting from positive seasonality.

For social and others advertising, the 55% year-on-year and 27% quarter-on-quarter increase in revenues benefited from factors including more advertising inventories in Weixin Moments, new advertising inventories in Mini Programs, higher impressions and eCPMs for our Mobile Ad Network, and enhanced traffic and monetisation for our QQ KanDian news feed. The sequential increase in revenues was mainly due to the features above, as well as positive seasonality.

Others

We recorded 81% year-on-year and 10% quarter-on-quarter revenue growth for our other businesses, mainly contributed by our payment and related financial services, and by our cloud services.

We continued to expand the user base of our payment business with MAU surpassing 800 million at the end of June this year. The average daily transaction volume increased by over 40% year-on-year. Benefiting from our initiatives on smart retail and high-frequency low-value payment use cases solutions, our offline commercial payment volume maintained rapid growth, up 280% year-on-year. Commercial payment volume accounted for over half of our total transaction volume for the first time. Our payment service revenues and, to a greater extent, gross margins continue to be adversely affected by the People's Bank of China progressively increasing its centralised deposit ratio requirement for third party online payment services providers, which reduces the overnight cash balances on which payment service providers previously received interest income. This centralised deposit ratio has increased to 42% in April 2018, and to 52% in July 2018, and is reported to ultimately increase to 100% in the near future. We are currently approximately mid-way through this transition, and are seeking to mitigate the impact through various monetisation initiatives elsewhere in our payment and related financial services.

Our cloud services revenues doubled year-on-year. We continued to deepen our penetration in key sectors including finance, smart retail and municipal services by signing up key accounts within each sector. Apart from utilising our advanced data analytics and AI technologies to better serve specific industry needs, we invested in and formed strategic partnerships with certain system integrators in order to offer more customised cloud services and speed up our expansion in offline industries. We further expanded our global cloud infrastructure footprint in tandem with the overseas development of our external clients and internal businesses — Tencent Cloud now operates in 45 availability zones worldwide compared to 34 availability zones a year ago. We will continue to grow our cloud business via organic growth as well as collaboration and investment opportunities, seeking to build a vibrant cloud ecosystem.

Chairman's Statement

DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

APPRECIATION

On behalf of the Board, I would like to thank our staff and management team for their professionalism, dedication and hard work. I would also like to express our sincere gratitude to our shareholders and stakeholders for their continuous support to the Group. We believe that our unwavering commitment to building a healthy ecosystem around our core capabilities will enhance the user experience and will further create value for our shareholders.

Ma Huateng

Chairman

Hong Kong, 15 August 2018

Management Discussion and Analysis

SECOND QUARTER OF 2018 COMPARED TO SECOND QUARTER OF 2017

The following table sets forth the comparative figures for the second quarter of 2018 and the second quarter of 2017:

	Unaudited	
	Three months ended	
	30 June	30 June
	2018	2017
	(RMB in millions)	
Revenues	73,675	56,606
Cost of revenues	(39,229)	(28,300)
Gross profit	34,446	28,306
Interest income	1,072	959
Other gains, net	2,506	5,125
Selling and marketing expenses	(6,360)	(3,660)
General and administrative expenses	(9,857)	(8,170)
Operating profit	21,807	22,560
Finance costs, net	(1,151)	(834)
Share of profit of associates and joint ventures	1,526	498
Profit before income tax	22,182	22,224
Income tax expense	(3,602)	(3,970)
Profit for the period	18,580	18,254
Attributable to:		
Equity holders of the Company	17,867	18,231
Non-controlling interests	713	23
	18,580	18,254
Non-GAAP profit attributable to equity holders of the Company	19,716	16,391

Management Discussion and Analysis

Revenues. Revenues increased by 30% to RMB73,675 million for the second quarter of 2018 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2018 and the second quarter of 2017:

	Unaudited			
	Three months ended			
	30 June 2018		30 June 2017	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	42,069	57%	36,804	65%
Online advertising	14,110	19%	10,148	18%
Others	17,496	24%	9,654	17%
Total revenues	<u>73,675</u>	<u>100%</u>	<u>56,606</u>	<u>100%</u>

- Revenues from our VAS business increased by 14% to RMB42,069 million for the second quarter of 2018 on a year-on-year basis. Online games revenues increased by 6% to RMB25,202 million. The increase primarily reflected growth in revenues from our smart phone games such as Honour of Kings and QQ Speed Mobile. Social networks revenues grew by 30% to RMB16,867 million. The increase was mainly driven by higher contributions from digital content services such as video streaming subscriptions and live broadcast services.
- Revenues from our online advertising business increased by 39% to RMB14,110 million for the second quarter of 2018 on a year-on-year basis. Social and others advertising revenues increased by 55% to RMB9,380 million. The increase was mainly driven by higher revenues derived from Weixin (primarily Weixin Moments and Mini Programs), our Mobile Ad Network and QQ KanDian. Media advertising revenues grew by 16% to RMB4,730 million. The growth mainly reflected greater contributions from Tencent Video as a result of its content portfolio and advertisers' sponsorship campaigns.
- Revenues from our other businesses increased by 81% to RMB17,496 million for the second quarter of 2018 on a year-on-year basis, primarily benefiting from growth at our payment related and cloud services.

Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 39% to RMB39,229 million for the second quarter of 2018 on a year-on-year basis. The increase mainly reflected greater costs of payment related services, channel costs, and content costs. As a percentage of revenues, cost of revenues increased to 53% for the second quarter of 2018 from 50% for the second quarter of 2017. The following table sets forth our cost of revenues by line of business for the second quarter of 2018 and the second quarter of 2017:

	Unaudited			
	Three months ended			
	30 June 2018		30 June 2017	
	Amount	% of segment revenues	Amount	% of segment revenues
(RMB in millions, unless specified)				
VAS	17,253	41%	14,501	39%
Online advertising	8,838	63%	6,307	62%
Others	13,138	75%	7,492	78%
Total cost of revenues	<u>39,229</u>		<u>28,300</u>	

- Cost of revenues for our VAS business increased by 19% to RMB17,253 million for the second quarter of 2018 on a year-on-year basis. The increase mainly reflected a mix shift toward, and greater content costs for, digital content activities including video streaming subscriptions and live broadcast, and higher channel costs for our smart phone games.
- Cost of revenues for our online advertising business increased by 40% to RMB8,838 million for the second quarter of 2018 on a year-on-year basis. The increase was driven by greater traffic acquisition costs and content costs, as well as bandwidth and server custody fees.
- Cost of revenues for our other businesses increased by 75% to RMB13,138 million for the second quarter of 2018 on a year-on-year basis, mainly due to the increased scale of our payment related and cloud services.

Management Discussion and Analysis

Other gains, net. Net other gains decreased by 51% to RMB2,506 million for the second quarter of 2018 on a year-on-year basis. The decrease primarily reflected decline in net gains from deemed disposal of investments, as well as higher impairment provision against certain investments, which was partly offset by gains from net increase in the fair value of our investment portfolio.

Selling and marketing expenses. Selling and marketing expenses increased by 74% to RMB6,360 million for the second quarter of 2018 on a year-on-year basis. The increase was mainly driven by greater marketing spending on our products and platforms such as online games, online media, payment related services and mobile utilities. As a percentage of revenues, selling and marketing expenses increased to 9% for the second quarter of 2018 from 6% for the second quarter of 2017.

General and administrative expenses. General and administrative expenses increased by 21% to RMB9,857 million for the second quarter of 2018 on a year-on-year basis. The increase primarily reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses decreased to 13% for the second quarter of 2018 from 14% for the second quarter of 2017.

Finance costs, net. Net finance costs increased by 38% to RMB1,151 million for the second quarter of 2018 on a year-on-year basis. The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Share of profit of associates and joint ventures. Share of profit of associates and joint ventures increased by 206% to RMB1,526 million for the second quarter of 2018 on a year-on-year basis. The increase was mainly due to a significant increase in profit contribution from an overseas associate whose tactical tournament game has achieved widespread popularity.

Income tax expense. Income tax expense decreased by 9% to RMB3,602 million for the second quarter of 2018 on a year-on-year basis. The decrease was primarily driven by lower withholding tax provided.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 2% to RMB17,867 million for the second quarter of 2018 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 20% to RMB19,716 million.

Management Discussion and Analysis

SECOND QUARTER OF 2018 COMPARED TO FIRST QUARTER OF 2018

The following table sets forth the comparative figures for the second quarter of 2018 and the first quarter of 2018:

	Unaudited	
	Three months ended	
	30 June	31 March
	2018	2018
	(RMB in millions)	
Revenues	73,675	73,528
Cost of revenues	(39,229)	(36,486)
Gross profit	34,446	37,042
Interest income	1,072	1,065
Other gains, net	2,506	7,585
Selling and marketing expenses	(6,360)	(5,570)
General and administrative expenses	(9,857)	(9,430)
Operating profit	21,807	30,692
Finance costs, net	(1,151)	(654)
Share of profit/(loss) of associates and joint ventures	1,526	(319)
Profit before income tax	22,182	29,719
Income tax expense	(3,602)	(5,746)
Profit for the period	18,580	23,973
Attributable to:		
Equity holders of the Company	17,867	23,290
Non-controlling interests	713	683
	18,580	23,973
Non-GAAP profit attributable to equity holders of the Company	19,716	18,313

Management Discussion and Analysis

Revenues. Revenues for the second quarter of 2018 were RMB73,675 million, essentially flat quarter-on-quarter as lower games revenues offset increased advertising, payment and digital content revenues.

- Revenues from our VAS business decreased by 10% to RMB42,069 million for the second quarter of 2018. Online games revenues decreased by 12% to RMB25,202 million, mainly reflecting users shifting time into our non-monetised tactical tournament games, timing of new game launches and weaker seasonality. Social networks revenues decreased by 7% to RMB16,867 million, primarily reflecting a decrease in revenues from in-game virtual item sales, partially offset by higher revenues from our digital content services such as video streaming subscriptions and live broadcast services.
- Revenues from our online advertising business increased by 32% to RMB14,110 million for the second quarter of 2018. Social and others advertising revenues grew by 27% to RMB9,380 million. The increase was mainly driven by positive seasonality and increased advertising inventories for properties such as Weixin Moments and Mini Programs. Media advertising revenues increased by 43% to RMB4,730 million. The increase primarily reflected positive seasonality and gradual deployment of advertisements in our popular news feed products.
- Revenues from our other businesses increased by 10% to RMB17,496 million for the second quarter of 2018. The increase mainly reflected growth in revenues from our payment related services.

Cost of revenues. Cost of revenues increased by 8% to RMB39,229 million for the second quarter of 2018 on a quarter-on-quarter basis. The increase primarily reflected greater content costs and costs of payment related services. As a percentage of revenues, cost of revenues increased to 53% for the second quarter of 2018 from 50% for the first quarter of 2018.

- Cost of revenues for our VAS business was RMB17,253 million for the second quarter of 2018, broadly stable compared to previous quarter, as reduced revenue-variable costs for some of our games offset increased subscription video and music content costs.
- Cost of revenues for our online advertising business increased by 20% to RMB8,838 million for the second quarter of 2018. The increase was primarily driven by greater content costs and traffic acquisition costs.
- Cost of revenues for our other businesses increased by 10% to RMB13,138 million for the second quarter of 2018. The increase was mainly due to our payment related services.

Management Discussion and Analysis

Selling and marketing expenses. Selling and marketing expenses increased by 14% to RMB6,360 million for the second quarter of 2018 on a quarter-on-quarter basis. The increase primarily reflected seasonally more advertising and promotional activities in the second quarter than the first quarter.

General and administrative expenses. General and administrative expenses increased by 5% to RMB9,857 million for the second quarter of 2018 on a quarter-on-quarter basis. The increase mainly reflected greater R&D expenses and staff costs.

Share of profit/(loss) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB1,526 million for the second quarter of 2018, compared to share of losses of RMB319 million for the first quarter of 2018. The change was mainly due to a significant increase in profit contribution from an overseas associate whose tactical tournament game has achieved widespread popularity.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 23% to RMB17,867 million for the second quarter of 2018 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 8% to RMB19,716 million.

OTHER FINANCIAL INFORMATION

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June	31 March	30 June	30 June	30 June
	2018	2018	2017	2018	2017
	(RMB in millions, unless specified)				
EBITDA (a)	26,409	29,247	22,427	55,656	42,422
Adjusted EBITDA (a)	28,139	30,856	23,802	58,995	45,102
Adjusted EBITDA margin (b)	38%	42%	42%	40%	42%
Interest and related expenses	1,188	1,067	760	2,255	1,427
Net (debt)/cash (c)	(35,301)	(14,533)	21,267	(35,301)	21,267
Capital expenditures (d)	7,085	6,318	3,010	13,403	5,118

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of property, plant and equipment as well as 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 (debt)/cash represents period end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding media contents, game licenses and other contents).

Management Discussion and Analysis

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

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June 2018	31 March 2018	30 June 2017	30 June 2018	30 June 2017
	(RMB in millions, unless specified)				
Operating profit	21,807	30,692	22,560	52,499	41,832
Adjustments:					
Interest income	(1,072)	(1,065)	(959)	(2,137)	(1,767)
Other gains, net	(2,506)	(7,585)	(5,125)	(10,091)	(8,316)
Depreciation of property, plant and equipment and investment properties	1,918	1,664	1,158	3,582	2,241
Amortisation of intangible assets	6,262	5,541	4,793	11,803	8,432
EBITDA	26,409	29,247	22,427	55,656	42,422
Equity-settled share-based compensation	1,730	1,609	1,375	3,339	2,680
Adjusted EBITDA	28,139	30,856	23,802	58,995	45,102

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain additional non-GAAP financial measures (in terms of, operating profit, operating margin, profit for the period, net margin, profit attributable to equity holders of the Company, basic EPS and 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 Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impacts of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

Management Discussion and Analysis

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the second quarter of 2018 and 2017, the first quarter of 2018, and the first half of 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 30 June 2018						
	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
(RMB in millions, unless specified)						
Operating profit	21,807	1,798	(4,010)	99	2,564	22,258
Profit for the period	18,580	2,562	(4,033)	813	2,577	20,499
Profit attributable to equity holders	17,867	2,478	(3,986)	779	2,578	19,716
EPS (RMB per share)						
– basic	1.893					2.089
– diluted	1.868					2.062
Operating margin	30%					30%
Net margin	25%					28%

Unaudited three months ended 31 March 2018						
	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
(RMB in millions, unless specified)						
Operating profit	30,692	1,632	(7,788)	100	636	25,272
Profit for the period	23,973	1,682	(7,765)	531	709	19,130
Profit attributable to equity holders	23,290	1,585	(7,766)	495	709	18,313
EPS (RMB per share)						
– basic	2.470					1.942
– diluted	2.435					1.915
Operating margin	42%					34%
Net margin	33%					26%

Management Discussion and Analysis

Unaudited three months ended 30 June 2017

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
						(RMB in millions, unless specified)
Operating profit	22,560	1,408	(5,619)	115	1,572	20,036
Profit for the period	18,254	1,553	(5,691)	472	1,899	16,487
Profit attributable to equity holders	18,231	1,492	(5,670)	439	1,899	16,391
EPS (RMB per share)						
– basic	1.939					1.743
– diluted	1.914					1.721
Operating margin	40%					35%
Net margin	32%					29%

Unaudited six months ended 30 June 2018

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
						(RMB in millions, unless specified)
Operating profit	52,499	3,430	(11,798)	199	3,200	47,530
Profit for the period	42,553	4,244	(11,798)	1,344	3,286	39,629
Profit attributable to equity holders	41,157	4,063	(11,752)	1,274	3,287	38,029
EPS (RMB per share)						
– basic	4.363					4.031
– diluted	4.303					3.976
Operating margin	36%					32%
Net margin	29%					27%

Management Discussion and Analysis

Unaudited six months ended 30 June 2017

	As reported	Adjustments				Non-GAAP
		Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
(RMB in millions, unless specified)						
Operating profit	41,832	2,747	(8,366)	268	2,075	38,556
Profit for the period	32,802	3,083	(8,408)	972	2,410	30,859
Profit attributable to equity holders	32,707	2,975	(8,387)	897	2,410	30,602
EPS (RMB per share)						
– basic	3.480					3.256
– diluted	3.436					3.215
Operating margin	39%					36%
Net margin	31%					29%

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals, disposals of investee companies and businesses, and fair value changes arising from investments
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, joint ventures, available-for-sale financial assets and intangible assets arising from acquisitions

INVESTMENTS HELD

As of 30 June 2018, our investment portfolio amounted to approximately RMB353,813 million (31 December 2017: RMB275,617 million) recorded in the statement of financial position under various categories including:

- investments in associates and joint ventures which accounted for equity method;
- available-for-sale financial assets;
- financial assets at fair value through profit or loss and through other comprehensive income;
- investments in redeemable financial instruments of associates; and
- other financial assets.

Management Discussion and Analysis

Changes in respective items in the statement of financial position have been disclosed in the notes to the interim financial information elsewhere in this interim report.

We manage our investment portfolio with a primary objective to strengthen our leading position in core businesses and complement our “Connection” strategy in various industries, particularly in the social and digital content and O2O and smart retail sectors. We also invest in transportation, financial technology and other sectors.

The fair value of our stakes in listed equity investments (excluding subsidiaries) amounted to RMB239,690 million as at 30 June 2018. The carrying amount of none of our investment (including listed equity investments) constitutes 5% or more of our total assets as of 30 June 2018.

We recorded return from our investment portfolio amounted to RMB10,124 million for the six months ended 30 June 2018, an increase of 41% compared to the same period of last year. Details of our return from investment portfolio is as follows:

Income of Principal Investment (Classified by nature of income)	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Dividend income	274	97	319	773
Gains on disposals and deemed disposals of investee companies	725	3,132	2,297	5,860
Fair value gains	3,285	2,487	9,501	2,506
Impairment provision for investee companies and intangible assets from acquisitions	(2,564)	(1,572)	(3,200)	(2,075)
Share of profit of associates and joint ventures	1,526	498	1,207	123

We will continue to closely monitor the performance of our investment portfolio and strategically make investments, mergers and acquisitions, and explore opportunities in monetising some of the existing investments if appropriate opportunities in the market arise.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Our net debt positions as at 30 June 2018 and 31 March 2018 are as follows:

	Unaudited 30 June 2018	Unaudited 31 March 2018
	(RMB in millions)	
Cash and cash equivalents	104,623	117,072
Term deposits and others	29,553	25,454
	134,176	142,526
Borrowings	(105,985)	(96,732)
Notes payable	(63,492)	(60,327)
Net debt	(35,301)	(14,533)
Fair value of our stakes in listed investee companies (excluding subsidiaries)	239,690	212,616

As at 30 June 2018, the Group had net debt of RMB35,301 million. The sequential increase in indebtedness primarily reflected payments for M&A initiatives and media contents, as well as payment of our final dividend for the year ended 31 December 2017, partly offset by free cash flow generation.

For the second quarter of 2018, the Group had free cash flow of RMB15,374 million. This was a result of net cash flows generated from operating activities of RMB21,578 million, offset by payments for capital expenditure of RMB6,204 million.

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 80, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. 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 of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 15 August 2018

Consolidated Income Statement

For the three and six months ended 30 June 2018

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2018 RMB'Million	2017 RMB'Million	2018 RMB'Million	2017 RMB'Million
Revenues					
Value-added services		42,069	36,804	88,946	71,912
Online advertising		14,110	10,148	24,799	17,036
Others		17,496	9,654	33,458	17,210
		<u>73,675</u>	<u>56,606</u>	<u>147,203</u>	<u>106,158</u>
Cost of revenues	9	<u>(39,229)</u>	<u>(28,300)</u>	<u>(75,715)</u>	<u>(52,409)</u>
Gross profit		34,446	28,306	71,488	53,749
Interest income		1,072	959	2,137	1,767
Other gains, net	8	2,506	5,125	10,091	8,316
Selling and marketing expenses	9	(6,360)	(3,660)	(11,930)	(6,818)
General and administrative expenses	9	(9,857)	(8,170)	(19,287)	(15,182)
Operating profit		21,807	22,560	52,499	41,832
Finance costs, net	10	(1,151)	(834)	(1,805)	(1,525)
Share of profit of associates and joint ventures		1,526	498	1,207	123
Profit before income tax		22,182	22,224	51,901	40,430
Income tax expense	11	(3,602)	(3,970)	(9,348)	(7,628)
Profit for the period		18,580	18,254	42,553	32,802
Attributable to:					
Equity holders of the Company		17,867	18,231	41,157	32,707
Non-controlling interests		713	23	1,396	95
		<u>18,580</u>	<u>18,254</u>	<u>42,553</u>	<u>32,802</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
– basic	12(a)	<u>1.893</u>	<u>1.939</u>	<u>4.363</u>	<u>3.480</u>
– diluted	12(b)	<u>1.868</u>	<u>1.914</u>	<u>4.303</u>	<u>3.436</u>

The accompanying notes on pages 34 to 80 form an integral part of this interim financial information.

Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2018

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	18,580	18,254	42,553	32,802
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive (loss)/income of associates and joint ventures	(123)	66	(28)	177
Net gains from changes in fair value of available-for-sale financial assets	–	10,190	–	17,416
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(1,832)
Currency translation differences	5,579	(3,232)	200	(4,217)
Other fair value gains/(losses)	332	(162)	1,193	(103)
<i>Items that will not be subsequently reclassified to profit or loss</i>				
Net (losses)/gains from changes in fair value of financial assets at fair value through other comprehensive income	(535)	–	535	–
Other fair value losses	(72)	(47)	(113)	(390)
	5,181	6,815	1,787	11,051
Total comprehensive income for the period	23,761	25,069	44,340	43,853
Attributable to:				
Equity holders of the Company	22,636	25,063	42,780	43,780
Non-controlling interests	1,125	6	1,560	73
	23,761	25,069	44,340	43,853

The accompanying notes on pages 34 to 80 form an integral part of this interim financial information.

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'Million	Audited 31 December 2017 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	14	30,814	23,597
Construction in progress	14	3,740	3,163
Investment properties	14	756	800
Land use rights	14	6,846	5,111
Intangible assets	14	46,729	40,266
Investments in associates	15	152,802	113,779
Investments in redeemable instruments of associates	4(a)	–	22,976
Investments in joint ventures		6,618	7,826
Financial assets at fair value through profit or loss	4(a), 16	121,655	–
Financial assets at fair value through other comprehensive income	4(a), 17	66,956	–
Available-for-sale financial assets	4(a)	–	127,218
Prepayments, deposits and other assets	18	14,301	11,173
Other financial assets	4(a), 19	2,568	5,159
Deferred income tax assets	20	11,172	9,793
Term deposits		–	5,365
		464,957	376,226
Current assets			
Inventories		306	295
Accounts receivable	21	21,558	16,549
Prepayments, deposits and other assets	18	23,499	17,110
Other financial assets	4(a), 19	394	465
Financial assets at fair value through profit or loss	4(a), 16	5,782	–
Term deposits		23,638	36,724
Restricted cash		2,051	1,606
Cash and cash equivalents		104,623	105,697
		181,851	178,446
Total assets		646,808	554,672

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'Million	Audited 31 December 2017 RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	22	–	–
Share premium		25,215	22,204
Shares held for share award schemes		(4,184)	(3,970)
Other reserves	4(a)	17,204	35,158
Retained earnings	4(a)	256,551	202,682
		294,786	256,074
Non-controlling interests		25,956	21,019
Total equity		320,742	277,093
LIABILITIES			
Non-current liabilities			
Borrowings	27	77,876	82,094
Notes payable	28	49,433	29,363
Long-term payables	26	5,843	3,862
Other financial liabilities		1,618	2,154
Deferred income tax liabilities	20	9,097	5,975
Deferred revenue	29	3,325	2,391
		147,192	125,839

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'Million	Audited 31 December 2017 RMB'Million
Current liabilities			
Accounts payable	24	60,838	50,085
Other payables and accruals	25	26,731	29,433
Borrowings	27	28,109	15,696
Notes payable	28	14,059	4,752
Current income tax liabilities		7,485	8,708
Other tax liabilities		825	934
Deferred revenue	29	40,827	42,132
		178,874	151,740
Total liabilities		326,066	277,579
Total equity and liabilities		646,808	554,672

The accompanying notes on pages 34 to 80 form an integral part of this interim financial information.

On behalf of the Board

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 31 December 2017, as previously reported	-	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9 (Note 4(a))	-	-	-	(16,210)	16,210	-	-	-
Balance at 1 January 2018	-	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
Comprehensive income								
Profit for the period	-	-	-	-	41,157	41,157	1,396	42,553
Other comprehensive income, net of tax:								
- share of other comprehensive loss of associates and joint ventures	-	-	-	(28)	-	(28)	-	(28)
- net gains from changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	520	-	520	15	535
- currency translation differences	-	-	-	51	-	51	149	200
- other fair value gains, net	-	-	-	1,080	-	1,080	-	1,080
Total comprehensive income for the period	-	-	-	1,623	41,157	42,780	1,560	44,340
Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings	-	-	-	(3,313)	3,313	-	-	-
Share of other changes in net assets of associates	-	-	-	577	-	577	-	577
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	76	76
Employee share option schemes:								
- value of employee services	-	884	-	38	-	922	35	957
- proceeds from shares issued	-	336	-	-	-	336	-	336
Employee share award schemes:								
- value of employee services	-	2,035	-	226	-	2,261	121	2,382
- shares withheld for share award schemes	-	-	(701)	-	-	(701)	-	(701)
- vesting of awarded shares	-	(487)	487	-	-	-	-	-
Tax benefit from share-based payments of a subsidiary	-	-	-	140	-	140	-	140
Profit appropriations to statutory reserves	-	-	-	35	(35)	-	-	-
Dividends (Note 13)	-	-	-	-	(6,776)	(6,776)	(432)	(7,208)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	988	988
Deemed disposal of a subsidiary	-	-	-	-	-	-	(34)	(34)
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	243	-	(234)	-	9	(110)	(101)
Dilution of interests in subsidiaries	-	-	-	474	-	474	1,829	2,303
Transfer of equity interests of subsidiaries to non-controlling interests	-	-	-	(904)	-	(904)	904	-
Recognition of the financial liabilities in respect of the put option from business combinations	-	-	-	(406)	-	(406)	-	(406)
Total transactions with equity holders at their capacity as equity holders for the period	-	3,011	(214)	(631)	(6,811)	(4,645)	3,377	(1,268)
Balance at 30 June 2018	-	25,215	(4,184)	17,204	256,551	294,786	25,956	320,742

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	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 2017	–	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247
Comprehensive income								
Profit for the period	–	–	–	–	32,707	32,707	95	32,802
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	177	–	177	–	177
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	17,416	–	17,416	–	17,416
– transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(1,832)	–	(1,832)	–	(1,832)
– currency translation differences	–	–	–	(4,195)	–	(4,195)	(22)	(4,217)
– other fair value losses, net	–	–	–	(493)	–	(493)	–	(493)
Total comprehensive income for the period	–	–	–	11,073	32,707	43,780	73	43,853
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	209	209
Employee share option schemes:								
– value of employee services	–	394	–	101	–	495	60	555
– proceeds from shares issued	–	82	–	–	–	82	–	82
Employee share award schemes:								
– value of employee services	–	1,868	–	215	–	2,083	47	2,130
– shares withheld for share award schemes	–	–	(664)	–	–	(664)	–	(664)
– vesting of awarded shares	–	(287)	287	–	–	–	–	–
Tax benefit from share-based payments of a subsidiary	–	–	–	118	–	118	–	118
Dividends	–	–	–	–	(5,052)	(5,052)	(461)	(5,513)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	412	–	(636)	–	(224)	(262)	(486)
Disposal and deemed disposal of subsidiaries	–	–	–	–	–	–	(133)	(133)
Dilution of interests in subsidiaries	–	–	–	(103)	–	(103)	103	–
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(465)	–	(465)	465	–
Total transactions with equity holders at their capacity as equity holders for the period	–	2,469	(377)	(770)	(5,052)	(3,730)	28	(3,702)
Balance at 30 June 2017	–	19,793	(3,513)	33,996	164,398	214,674	11,724	226,398

The accompanying notes on pages 34 to 80 form an integral part of this interim financial information.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'Million	RMB'Million
Cash flows from operating activities		
Cash generated from operations	51,008	54,533
Income tax paid	(9,605)	(7,451)
Net cash flows generated from operating activities	<u>41,403</u>	<u>47,082</u>
Cash flows from investing activities		
Payments for business combinations, net of cash acquired	(1,875)	–
Net (outflows)/inflows of cash in respect of		
disposals and deemed disposals of subsidiaries	(201)	6
Purchase of property, plant and equipment, construction in progress and investment properties	(10,348)	(5,021)
Proceeds from disposals of property, plant and equipment	6	–
Purchase of/prepayments for intangible assets	(13,994)	(7,173)
Purchase of/prepayments for land use rights	(2,212)	(46)
Payments for acquisition of investments in associates	(29,279)	(4,596)
Proceeds from disposals of investments in associates	421	284
Payments for acquisition of investments in redeemable instruments of associates	–	(14,229)
Payments for acquisition of financial assets at fair value through other comprehensive income	(14,024)	–
Proceeds from disposals of financial assets at fair value through other comprehensive income	6,344	–
Payments for acquisition of financial assets at fair value through profit or loss	(30,758)	–
Proceeds from disposals of financial assets at fair value through profit or loss	3,850	–
Payments for acquisition of investments in joint ventures	(841)	(78)
Proceeds from disposals of investments in joint ventures	–	9
Payments for available-for-sale financial assets	–	(12,004)
Proceeds from disposals of available-for-sale financial assets	–	3,154
Payments for loans to investees and others	(1,464)	(1,111)
Loan repayments from investees and others	203	731
Payments for other financial assets	–	(994)
Proceeds from settlement of other financial assets	–	274
Receipt from maturity of term deposits with initial terms of over three months	35,756	27,784
Placement of term deposits with initial terms of over three months	(17,305)	(38,938)
Interest received	2,247	833
Dividends received	578	782
Net cash flows used in investing activities	<u>(72,896)</u>	<u>(50,333)</u>

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	15,943	5,418
Repayments of short-term borrowings	(9,120)	(6,520)
Proceeds from long-term borrowings	–	19,092
Repayments of long-term borrowings	(15)	(5,270)
Net proceeds from issuance of notes payable	32,547	–
Repayments of notes payable	(3,798)	(3,450)
Proceeds from issuance of ordinary shares	336	82
Shares withheld for share award schemes	(701)	(664)
Transactions with non-controlling interests	2,181	(587)
Dividends paid to the Company's shareholders	(6,776)	(5,052)
Dividends paid to non-controlling interests	(474)	(459)
	30,123	2,590
Net cash flows generated from financing activities	30,123	2,590
Net decrease in cash and cash equivalents	(1,370)	(661)
Cash and cash equivalents at beginning of the period	105,697	71,902
Exchange gains/(losses) on cash and cash equivalents	296	(940)
	104,623	70,301
Cash and cash equivalents at end of the period	104,623	70,301
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	44,058	31,527
Term deposits and highly liquid investments with initial terms within three months	60,565	38,774
	104,623	70,301

The accompanying notes on pages 34 to 80 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 with limited liability. 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 value-added services (“VAS”) and online advertising services to users in the People’s Republic of China (the “PRC”).

The condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2018, the consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 BASIS OF PREPARATION AND PRESENTATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2017 annual report of the Company dated 21 March 2018 (the “2017 Financial Statements”).

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 2017 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments, which are carried at fair values.

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

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and amendments to standards adopted by the Group

Adoption of IFRS 9

The Group has reviewed its financial assets and liabilities and adopted IFRS 9 on 1 January 2018:

(i) Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and amendments to standards adopted by the Group (continued)

Adoption of IFRS 9 (continued)

(i) Classification and measurement (continued)

Debt instruments (continued)

- Fair value through other comprehensive income (“FVOCI”): Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in “other gains, net” in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in “finance costs, net” and impairment losses or reversals for “other gains, net”.
- Fair value through profit or loss (“FVPL”): Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in “other gains, net” for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group’s management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instruments under IFRS 9 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as “other gains, net” when the Group’s right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and amendments to standards adopted by the Group (continued)

Adoption of IFRS 9 (continued)

(i) Classification and measurement (continued)

Equity instruments (continued)

FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss and financial assets mandatorily required to be measured at fair value through profit or loss. Changes in the fair value of FVPL are recognised in “other gains, net” in the consolidated income statement.

(ii) Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within “other gains, net”.

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and amendments to standards adopted by the Group (continued)

Adoption of IFRS 9 (continued)

(ii) Derivatives and hedge accounting (continued)

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.

(iii) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or other receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

The further details on effects of the adoption of IFRS 9 are set out in Note 4.

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards and amendments to standards adopted by the Group (continued)

Adoption of IFRS 15

The Group has also adopted IFRS 15 “Revenue from contracts with customers” on 1 January 2018. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach: (i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. IFRS 15 also provides specific guidance on contract costs and license arrangements. It also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers. In accordance with the transitional provision in IFRS 15, since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated.

(b) New standards and amendments to standards issued but not effective

A number of new standards and amendments to standards have not come into effect for the financial year beginning 1 January 2018, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except IFRS 16 “Lease” as set out below:

IFRS 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group’s operating leases. The Group is still in the process of assessing the impact of this new standard on the Group’s results and financial position.

The new standard is mandatory for financial years commencing on or after 1 January 2019.

Notes to the Interim Financial Information

4 CHANGES IN ACCOUNTING POLICY

As explained in Note 3(a) above, the Group has adopted IFRS 9 since 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under IFRS 9, comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

(a) Classification and measurement of financial instruments

Management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

At 1 January 2018	AFS RMB' Million	RCPS RMB' Million	OFA RMB' Million	FVPL RMB' Million	FVOCI RMB' Million	Total RMB' Million
Opening balance – IAS 39	127,218	22,976	5,624	–	–	155,818
Reclassification of available-for-sale financial assets (“AFS”) to FVPL	(68,703)	–	–	68,703	–	–
Reclassification of AFS to FVOCI	(58,515)	–	–	–	58,515	–
Reclassification of investments in redeemable instruments of associates (“RCPS”) to FVPL	–	(22,976)	–	22,976	–	–
Reclassification of other financial assets (“OFA”) to FVPL	–	–	(3,818)	3,818	–	–
Opening balance – IFRS 9	–	–	1,806	95,497	58,515	155,818

Notes to the Interim Financial Information

4 CHANGES IN ACCOUNTING POLICY (continued)

(a) Classification and measurement of financial instruments (continued)

The main effects resulting from this reclassification on the Group's equity are as follows:

At 1 January 2018	Effect on AFS reserves RMB'Million	Effect on FVOCI reserves RMB'Million	Effect on retained earnings RMB'Million
Opening balance – IAS 39	31,152	–	202,682
Reclassification of AFS to FVPL	(16,210)	–	16,210
Reclassification of AFS to FVOCI	(14,942)	14,942	–
Total impact	(31,152)	14,942	16,210
Opening balance – IFRS 9	–	14,942	218,892

Certain equity investments and debt instruments previously classified as AFS at an aggregated amount of RMB68,703 million were reclassified from AFS to FVPL on 1 January 2018, and accumulated fair value gains of RMB16,210 million were transferred from the AFS reserves to retained earnings on 1 January 2018.

Equity investments in certain companies of RMB58,515 million were reclassified from AFS to FVOCI on 1 January 2018, because these investments are not held for trading and meet the definition of equity instruments from the perspective of the issuer. As a result, accumulated fair value gains of RMB14,942 million were transferred from the AFS reserves to FVOCI reserves on 1 January 2018.

Investments in RCPS of RMB22,976 million were reclassified to FVPL as at 1 January 2018. They do not meet the definition of equity instruments from the perspective of the issuer and they are not eligible to be classified as at amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments of principal and interest. There was no impact on the amounts previously recognised in profit or loss in relation to these assets from the adoption of IFRS 9.

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities.

Notes to the Interim Financial Information

4 CHANGES IN ACCOUNTING POLICY (continued)

(b) Derivative and hedging activities

In prior years, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its borrowings carried at floating rates, which were qualified as hedge accounting. The interest rate swaps in place as at 31 December 2017 qualified as cash flow hedges under IFRS 9 and have been thus treated as continuing hedges upon the adoption of the standard.

(c) Impairment of financial assets

The Group has the following types of financial assets subject to IFRS 9 new expected credit loss model:

- Accounts receivable; and
- Deposits and other receivables.

For accounts receivable, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for accounts receivable are insignificant.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for deposits and other receivables are insignificant.

5 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 2017 Financial Statements.

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it 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 2017 Financial Statements.

There were no significant changes in any material risk management policies during the six months ended 30 June 2018.

During the three and six months ended 30 June 2018, the Group reported exchange gains of RMB37 million and RMB450 million respectively (three and six months ended 30 June 2017: exchange losses of RMB74 million and RMB98 million) (Note 10), within "Finance costs, net" in the consolidated income statement.

(b) Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

Capital refers to equity and external debts (including borrowings and notes payable). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase the Company's shares or raise/repay debts.

The Group monitors capital by regularly reviewing debts to adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") ratio, being the measure of the Group's ability to pay off all debts that reflects financial health and liquidity position. The total debts/adjusted EBITDA ratio calculated by dividing the total debts by adjusted EBITDA is as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	(RMB in million, unless specified)	
Borrowings (Note 27)	105,985	97,790
Notes payable (Note 28)	63,492	34,115
Total debts	169,477	131,905
Adjusted EBITDA for the twelve months ended 30 June 2018/31 December 2017 (Note)	109,754	95,861
Total debts/Adjusted EBITDA ratio	1.54	1.38

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(b) Capital risk management (continued)

Note:

Adjusted EBITDA represents operating profit less interest income and other gains/losses, net, and plus depreciation of property, plant and equipment and investment properties, amortisation of intangible assets and equity-settled share-based compensation expenses.

The movement in the ratio is mainly the result of additional debts issued by the Group during the period.

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 30 June 2018				
FVPL	12,910	4,829	109,698	127,437
FVOCI	66,185	–	771	66,956
Other financial assets	–	2,962	–	2,962
Other financial liabilities	–	–	1,618	1,618
As at 31 December 2017				
Available-for-sale financial assets	53,574	331	73,313	127,218
Other financial assets	–	1,806	3,818	5,624
Other financial liabilities	–	–	2,154	2,154

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

During the six months ended 30 June 2018, four FVPL were transferred from level 3 to level 1 of fair value hierarchy classifications.

The following table presents the changes in level 3 financial instruments for the six months ended 30 June 2018 and 2017:

	Financial assets		Financial liabilities	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Opening balance - IAS 39	77,131	65,599	2,154	2,576
Adjustment on adoption of IFRS 9 (Note 4(a))	22,976	—	—	—
Opening balance - IFRS 9	100,107	65,599	2,154	2,576
Additions	26,540	5,756	—	—
Disposals and transfers/settlements	(26,416)	(4,310)	—	—
Changes in fair value	9,014	7,832	(548)	(44)
Impairment provision	—	(506)	—	—
Currency translation differences	1,224	(1,581)	12	(64)
Closing balance	110,469	72,790	1,618	2,468

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

Valuation processes of the Group (Level 3)

The Group has a team of personnel who performs valuation on these level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every quarter, which coincides with the Group's quarterly reporting dates. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

The components of the level 3 instruments mainly include investments in private investment funds and unlisted companies, other financial instruments and convertible bonds. As these instruments are not traded in an active market, their fair values have been determined using various applicable valuation techniques, including discounted cash flows approach, comparable transactions approach, and other option pricing models, etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of weighted average cost of capital, recent market transactions, discount for lack of marketability and other exposure, etc. Other financial liabilities included guarantees provided by the Group on certain put arrangements of an associate and put options issued by the Group to certain investors of the associate, at a pre-determined pricing formula. The fair values of these instruments determined by the Group require significant judgement, including the likelihood of non-performance by the investee company, financial performance of the investee company, market value of comparable companies as well as discount rate, etc.

Notes to the Interim Financial Information

7 SEGMENT INFORMATION

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

The Group has the following reportable segments for the three and six months ended 30 June 2018 and 2017:

- VAS;
- Online advertising; and
- Others.

"Others" segment primarily comprises payment related services for individual and corporate users, cloud services 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 these 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, share of profit/(loss) of associates and joint ventures and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the three and six months ended 30 June 2018 and 2017. 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

7 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 2018 and 2017 is as follows:

	Unaudited			
	Three months ended 30 June 2018			
	VAS	Online	Others	Total
	RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>42,069</u>	<u>14,110</u>	<u>17,496</u>	<u>73,675</u>
Gross profit	<u>24,816</u>	<u>5,272</u>	<u>4,358</u>	<u>34,446</u>
Depreciation	457	294	830	1,581
Amortisation	<u>2,854</u>	<u>3,178</u>	<u>15</u>	<u>6,047</u>

	Unaudited			
	Three months ended 30 June 2017			
	VAS	Online	Others	Total
	RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>36,804</u>	<u>10,148</u>	<u>9,654</u>	<u>56,606</u>
Gross profit	<u>22,303</u>	<u>3,841</u>	<u>2,162</u>	<u>28,306</u>
Depreciation	490	109	319	918
Amortisation	<u>1,734</u>	<u>2,864</u>	<u>–</u>	<u>4,598</u>

Notes to the Interim Financial Information

7 SEGMENT INFORMATION (continued)

	Unaudited			
	Six months ended 30 June 2018			
	VAS	Online	Others	Total
RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>88,946</u>	<u>24,799</u>	<u>33,458</u>	<u>147,203</u>
Gross profit	<u>54,473</u>	<u>8,605</u>	<u>8,410</u>	<u>71,488</u>
Depreciation	891	529	1,505	2,925
Amortisation	<u>5,164</u>	<u>6,142</u>	<u>73</u>	<u>11,379</u>

	Unaudited			
	Six months ended 30 June 2017			
	VAS	Online	Others	Total
RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>71,912</u>	<u>17,036</u>	<u>17,210</u>	<u>106,158</u>
Gross profit	<u>43,694</u>	<u>6,240</u>	<u>3,815</u>	<u>53,749</u>
Depreciation	1,013	168	543	1,724
Amortisation	<u>3,843</u>	<u>4,158</u>	<u>–</u>	<u>8,001</u>

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

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the three and six months ended 30 June 2018 and 2017.

Notes to the Interim Financial Information

8 OTHER GAINS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Gains on disposals and deemed disposals of investee companies (Note (a))	725	3,132	2,297	5,860
Fair value gains on FVPL (Note (b))	2,946	–	8,988	–
Fair value gains on other financial instruments	339	2,487	513	2,506
Impairment provision for investee companies and intangible assets from acquisitions (Note (c))	(2,564)	(1,572)	(3,200)	(2,075)
Subsidies and tax rebates	704	1,014	1,928	1,818
Dividend income	274	97	319	773
Donation to Tencent Charity Funds	–	–	(570)	(550)
Others	82	(33)	(184)	(16)
	2,506	5,125	10,091	8,316

Note:

- (a) The disposal and deemed disposal gains during the six months ended 30 June 2018 mainly comprised the following:
- net gains of approximately RMB1,313 million on dilution of the Group's equity interests in certain associates and a joint venture due to new equity interests being issued by these associates and the joint venture. These investee companies are principally engaged in Internet-related business;
 - gains of approximately RMB417 million arising from acquisition of certain subsidiaries achieved in stages from investments in associates, which are principally engaged in online game business; and
 - aggregate net gains of approximately RMB567 million on disposals and partial disposals of various investments of the Group.
- (b) The fair value gains on FVPL during the three and six months ended 30 June 2018 comprised of net gains of approximately RMB2,946 million and RMB8,988 million (Note 16), respectively, as a result of increases in valuations of certain FVPL.

Notes to the Interim Financial Information

8 OTHER GAINS, NET (continued)

Note: (continued)

- (c) The impairment provision for investee companies and intangible assets arising from acquisitions was mainly set up against the carrying amounts of the following items:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Investments in associates and joint ventures	2,564	759	3,196	790
Investments in redeemable instruments of associates	–	454	–	560
Available-for-sale financial assets	–	230	–	596
Others	–	129	4	129
	2,564	1,572	3,200	2,075

9 EXPENSES BY NATURE

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (Note (a))	10,363	8,594	19,938	16,017
Content costs (excluding amortisation of intangible assets) (Note (b))	8,647	7,172	16,478	13,763
Channel and distribution costs (Note (b))	7,684	5,105	15,537	9,418
Bandwidth and server custody fees	3,737	2,660	7,148	5,091
Promotion and advertising expenses	5,176	2,723	9,750	5,048
Operating lease rentals in respect of office buildings	399	319	754	625
Travelling and entertainment expenses	334	246	607	440
Amortisation of intangible assets (Note (c) and Note 14)	6,262	4,793	11,803	8,432
Depreciation of property, plant and equipment (Note 14)	1,911	1,151	3,567	2,227

Notes to the Interim Financial Information

9 EXPENSES BY NATURE (continued)

Note:

(a) During the three and six months ended 30 June 2018, the Group incurred expenses for the purpose of research and development of approximately RMB5,722 million and RMB10,728 million, respectively (three and six months ended 30 June 2017: approximately RMB4,241 million and RMB7,838 million, respectively), which mainly comprised employee benefits expenses.

No significant development expenses had been capitalised for the three and six months ended 30 June 2018 and 2017.

(b) The comparative figures of certain costs have been reclassified to better reflect the nature of the costs and in conformity to current period's classification.

(c) Mainly included the amortisation charges of intangible assets in respect of media contents and game licences.

10 FINANCE COSTS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Interest and related expenses	1,188	760	2,255	1,427
Exchange (gains)/losses	(37)	74	(450)	98
	<u>1,151</u>	<u>834</u>	<u>1,805</u>	<u>1,525</u>

Interest and related expenses mainly arose from the borrowings and notes payable disclosed in Notes 27 and 28.

11 TAXATION

(a) Income tax expense

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

(i) Cayman Islands and British Virgin Islands corporate income tax

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and six months ended 30 June 2018 and 2017.

(ii) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the three and six months ended 30 June 2018 and 2017.

Notes to the Interim Financial Information

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC corporate income tax

PRC corporate income tax has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the PRC for the three and six months ended 30 June 2018 and 2017. The general PRC corporate income tax rate is 25% for the three and six months ended 30 June 2018 and 2017.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprises, and accordingly, they were subject to a reduced preferential corporate income tax rate of 15% for the three and six months ended 30 June 2018 and 2017. Moreover, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise shall file its status with tax authorities for review and record in accordance with the relevant requirements at the time of final tax settlement each year in order to enjoy the preferential tax rate of 10%. The PRC corporate income tax for the relevant subsidiaries of the Company filing for this preferential tax treatment has been provided for at their respective prevailing tax rates (i.e. 15% or 25%) during the period. Upon receipt of notification, the relevant subsidiaries of the Company will be entitled to corporate income tax rate of 10% and corresponding tax adjustments will be accounted for.

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

(iv) Corporate income tax in other countries

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the three and six months ended 30 June 2018 and 2017 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 36%.

Notes to the Interim Financial Information

11 TAXATION (continued)

(a) Income tax expense (continued)

(v) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between the Mainland China and Hong Kong, the relevant withholding tax rate applicable to the Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

Dividends distributed from certain jurisdictions that the Group's entities operate in are also subject to withholding tax at respective applicable tax rates.

The income tax expense of the Group for the three and six months ended 30 June 2018 and 2017 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current income tax	4,049	3,824	8,538	7,516
Deferred income tax (Note 20)	(447)	146	810	112
	<u>3,602</u>	<u>3,970</u>	<u>9,348</u>	<u>7,628</u>

Notes to the Interim Financial Information

11 TAXATION (continued)

(b) Value-added tax and other taxes

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

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

Note:

Effective from 1 May 2018, the 17% and 11% VAT rates applicable to certain goods and services have been reduced to 16% and 10%, respectively.

12 EARNINGS PER SHARE

(a) Basic

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

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Profit attributable to equity holders of the Company (RMB’Million)	<u>17,867</u>	<u>18,231</u>	<u>41,157</u>	<u>32,707</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,438</u>	<u>9,403</u>	<u>9,434</u>	<u>9,400</u>
Basic EPS (RMB per share)	<u>1.893</u>	<u>1.939</u>	<u>4.363</u>	<u>3.480</u>

Notes to the Interim Financial Information

12 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 2018 and 2017, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted EPS.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	<u>17,867</u>	<u>18,231</u>	<u>41,157</u>	<u>32,707</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,438</u>	9,403	<u>9,434</u>	9,400
Adjustments for share options and awarded shares (million shares)	<u>125</u>	121	<u>130</u>	120
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,563</u>	<u>9,524</u>	<u>9,564</u>	<u>9,520</u>
Diluted EPS (RMB per share)	<u>1.868</u>	1.914	<u>4.303</u>	3.436

13 DIVIDENDS

A final dividend in respect of the year ended 31 December 2017 of HKD0.88 per share (2016: HKD0.61 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2018 and approved by the shareholders of the Company at the annual general meeting of the Company held on 16 May 2018. Such dividend amounting to RMB6,776 million (final dividend for 2016: RMB5,052 million) was paid before 30 June 2018.

The Board did not declare any interim dividend for the six months ended 30 June 2018 and 2017.

Notes to the Interim Financial Information

14 PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Unaudited				
	Property, plant and equipment	Construction in progress	Investment properties	Land use rights	Intangible assets
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Net book amount at 1 January 2018	23,597	3,163	800	5,111	40,266
Business combinations	2	–	–	–	2,769
Additions	10,162	1,157	–	2,011	16,039
Transfers	606	(577)	(29)	–	–
Disposals	(10)	–	–	–	(607)
Depreciation/amortisation	(3,567)	–	(15)	(276)	(11,803)
Impairment	–	–	–	–	(4)
Currency translation differences	24	(3)	–	–	69
Net book amount at 30 June 2018	30,814	3,740	756	6,846	46,729
Net book amount at 1 January 2017	13,900	4,674	854	5,174	36,467
Business combinations	–	–	–	–	8
Additions	3,911	1,001	–	46	11,088
Transfers	322	(328)	6	–	–
Disposals	(21)	–	–	–	(25)
Depreciation/amortisation	(2,227)	–	(14)	(55)	(8,432)
Impairment	(4)	–	–	–	(129)
Currency translation differences	(7)	(1)	–	–	(86)
Net book amount at 30 June 2017	15,874	5,346	846	5,165	38,891

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment whenever there is any indication of impairment or annually at year-end (31 December). 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.

Except for certain insignificant amounts of intangible assets arising from acquisitions were impaired during the six months ended 30 June 2018, there was no indication of impairment for property, plant and equipment, construction in progress, investment properties, land use rights and other intangible assets during the six months ended 30 June 2018.

Notes to the Interim Financial Information

15 INVESTMENTS IN ASSOCIATES

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities (Note)	67,214	60,935
– Unlisted entities	85,588	52,844
	152,802	113,779

Note:

As at 30 June 2018, the fair value of the investments in associates which are listed entities was RMB162,258 million (31 December 2017: RMB156,968 million).

Movement of investments in associates is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'Million	RMB'Million
At beginning of period	113,779	70,042
Additions (Note (i), (ii), (iii), (iv) and (v))	31,976	5,234
Deemed disposal gains (Note 8(a))	1,185	2,400
Share of profit of associates	1,127	97
Share of other changes in net assets of associates	577	–
Share of other comprehensive income of associates	(26)	177
Dividends	(226)	(4)
Transfers (Note (vi))	5,020	265
Disposals	(661)	(79)
Impairment provision (Note (vii))	(959)	(790)
Currency translation differences	1,010	(3,140)
At end of period	152,802	74,202

Notes to the Interim Financial Information

15 INVESTMENTS IN ASSOCIATES (continued)

Note:

- (i) During the six months ended 30 June 2018, the Group made additional investments in an existing associate which is principally engaged in eCommerce business in Asia, to further subscribe for its certain equity interests at a total consideration of USD1,019 million (equivalent to approximately RMB6,462 million). As at 30 June 2018, the Group's equity interest in this investee company is approximately 18% on an outstanding basis.
- (ii) During the six months ended 30 June 2018, the Group acquired approximately 28% of equity interests on an outstanding basis in an existing investee company recorded as FVPL which is engaged in media and entertainment business, at a cash consideration of approximately RMB3,317 million. As a result, the investment in this investee company was re-designated from FVPL to investment in an associate. The Group further acquired certain equity interests in it, at a cash consideration of approximately RMB1,415 million. As at 30 June 2018, the Group's equity interest in this investee company is approximately 44% on an outstanding basis.
- (iii) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an existing associate, which is principally engaged in media and entertainment business, to further subscribe for its certain equity interests at a cash consideration of approximately USD631 million (equivalent to approximately RMB3,998 million). As at 30 June 2018, the Group's equity interest in this investee company is approximately 43% on an outstanding basis.
- (iv) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company which is principally engaged in online game business, to acquire approximately 12% of its equity interests, on an outstanding basis, at a cash consideration of approximately RMB2,985 million, which is accounted for as an associate.
- (v) The Group also acquired certain other associates and made additional investments in existing associates with an aggregate amount of RMB13,799 million during the six months ended 30 June 2018.
- (vi) Transfers mainly comprised re-designation of several investments from FVPL to investments in associates as a result of change in nature of these investments, including an investment in an investee company re-designated as investment in associate due to the conversion of the redeemable instruments into ordinary shares amounting to RMB4,671 million upon its initial public offering.
- (vii) During the six months ended 30 June 2018, the Group made an aggregate impairment provision of RMB959 million (six months ended 30 June 2017: RMB790 million) against the carrying amounts of certain investments in associates. The impairment loss mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and with a total carrying amount of RMB75,186 million as at 30 June 2018 (31 December 2017: RMB56,768 million). Management determined that it has significant influence on those associates through the board representation or other arrangements made. Consequently, these investments have been classified as associates.

Transactions with associates

- (a) Transactions related to online services

During the three and six months ended 30 June 2018 and 2017, the Group had undertaken transactions relating to provision of online traffic, online advertising and other online services to certain associates (including JD.com), under but not limited to certain co-operation arrangements.

The revenues recorded by the Group from the aforesaid transactions during the three and six months ended 30 June 2018 and 2017 were considered to be insignificant.

Notes to the Interim Financial Information

15 INVESTMENTS IN ASSOCIATES (continued)

Transactions with associates (continued)

(b) Other transactions

The Group placed certain deposits in an associate in the ordinary course of business. During the three and six months ended and as at 30 June 2018, the balances of these deposits and interest income thereon were considered to be insignificant.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

Included in non-current assets:

Investments in listed entities	
Investments in unlisted entities	
Others	

Included in current assets:

Treasury investments and others	
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Unaudited
30 June 2018
RMB'Million

11,247

105,900

4,508

121,655

5,782

127,437

Movement of FVPL is analysed as follows:

At beginning of period

Adjustment on adoption of IFRS 9 (Note 4(a))	
Additions (Note (i), (ii), (iii), (iv) and (v))	
Transfers (Note 15 (vi))	
Changes in fair value (Note 8(b))	
Disposals (Note (vi))	
Currency translation differences	

At end of period

Unaudited
Six months ended
30 June 2018
RMB'Million

–

95,497

33,444

(5,205)

8,988

(7,434)

2,147

127,437

Notes to the Interim Financial Information

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Note:

- (i) During the six months ended 30 June 2018, the Group entered into a strategy investment agreement with an investee company, which is a commercial property company located in the PRC, to acquire approximately 4% of its equity interests on an outstanding basis. As at 30 June 2018, the transaction was partially completed, and the Group had acquired approximately 2% of its equity interests at a consideration of HKD5,252 million (equivalent to approximately RMB4,216 million) and this investment is classified as FVPL.
- (ii) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company, which is principally engaged in the media and entertainment business, to subscribe for approximately 35% of its equity interests, on an outstanding basis, at a total consideration of USD462 million (equivalent to approximately RMB2,922 million).
- (iii) During the six months ended 30 June 2018, the Group disposed of its entire equity interest in an investee company, to another investee company of the Group at a total consideration of USD539 million (equivalent to approximately RMB3,401 million) comprised of cash and its equity interests. The acquirer is principally engaged in the provision of Internet-related services.
- (iv) During the six months ended 30 June 2018, the Group made additional investment in an existing investee company which is principally engaged in the media and entertainment business, to further subscribe for its certain equity interests at a total consideration of USD400 million (equivalent to approximately RMB2,536 million). As at 30 June 2018, the Group's equity interest in this investee company is approximately 14% on an outstanding basis.
- (v) During the six months ended 30 June 2018, the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB20,876 million in listed and unlisted entities mainly operated in the United States, the PRC and other Asian countries. These companies are principally engaged in games, entertainment, technology and other Internet-related services.
- (vi) During the six months ended 30 June 2018, the Group disposed of certain investments, which are mainly engaged in the provision of Internet-related services.

Notes to the Interim Financial Information

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

Equity investments in listed entities

- United States
- Mainland China
- France

Others

**Unaudited
30 June 2018
RMB'Million**

57,048

5,920

3,217

66,185

771

66,956

Movement of FVOCI is analysed as follows:

At beginning of period

Adjustment on adoption of IFRS 9 (Note 4(a))

Additions (Note (i), (ii), (iii), (iv) and (v))

Changes in fair value

Disposals (Note (vi))

Currency translation differences

At end of period

**Unaudited
Six months ended
30 June 2018
RMB'Million**

–

58,515

14,044

438

(6,341)

300

66,956

Notes to the Interim Financial Information

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Note:

- (i) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company, which is principally engaged in retail business, to acquire approximately 5% of its equity interests, on an outstanding basis, at a total consideration of RMB4,216 million.
- (ii) During the six months ended 30 June 2018, the Group made additional investment in an existing investee company, which is principally engaged in Internet-related business, to further acquire approximately 3% of its equity interests, on an outstanding basis, at a total consideration of USD570 million (equivalent to approximately RMB3,712 million).
- (iii) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company, which is principally engaged in game business, to acquire approximately 5% of its equity interests, on an outstanding basis, at a total consideration of EUR371 million (equivalent to approximately RMB2,900 million).
- (iv) During the six months ended 30 June 2018, the Group made additional investment in an existing investee company, which is principally engaged in media and entertainment business, to further acquire certain equity interests, at a total consideration of USD395 million (equivalent to approximately RMB2,508 million).
- (v) During the six months ended 30 June 2018, the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB708 million in listed entities mainly operated in the PRC, which are principally engaged in technology services.
- (vi) During the six months ended 30 June 2018, the Group partially disposed of certain listed investments, with total gains of RMB3,313 million on disposals of FVOCI transferred from other reserves to retained earnings.

Notes to the Interim Financial Information

18 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	8,936	7,031
Loans to investees and investees' shareholders (Note (a))	3,002	2,058
Running royalty fees for online games (Note (b))	27	149
Others	2,336	1,935
	14,301	11,173
Included in current assets:		
Prepayments and prepaid expenses	9,115	6,681
Running royalty fees for online games (Note(b))	5,528	4,095
Interest receivables	2,593	2,703
Refundable value-added tax	1,081	579
Loans to investees and investees' shareholders (Note (a))	1,040	521
Rental deposits and other deposits	243	220
Others	3,899	2,311
	23,499	17,110
	37,800	28,283

Note:

- (a) As at 30 June 2018, the balance of loans to investees and investees' shareholders are mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 6.0% per annum (31 December 2017: not higher than 8.0% per annum).
- (b) Running royalty fees for online games comprises of prepaid royalty fees and contract costs in relation to unamortised commissions and unamortised running royalty fees. There is no impairment on any of these contract costs.

As at 30 June 2018, the carrying amounts of deposits and other assets (excluding prepayments and refundable value-added tax) were approximate to their fair values. Deposits and other assets were neither past due nor impaired.

Notes to the Interim Financial Information

19 OTHER FINANCIAL ASSETS

Other financial assets were measured at their fair values.

Included in non-current assets:

As at 30 June 2018, the Group's non-current other financial assets comprised interest rate swap contracts of RMB2,568 million for interest rate hedging purpose which swap the floating interest rates into fixed interest rates. The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts, were USD11,241 million (equivalent to approximately RMB74,377 million).

Included in current assets:

As at 30 June 2018, the Group's current other financial assets mainly comprised call option rights held by the Group to acquire additional equity interests in an investee company of the Group, amounting to RMB356 million.

20 DEFERRED INCOME TAXES

The movements of deferred income tax assets/liabilities are as follows:

	Deferred income tax assets RMB'Million	Unaudited Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2018	9,793	(5,975)	3,818
Credited/(charged) to consolidated income statement (Note 11)	1,275	(2,085)	(810)
Withholding tax paid	–	161	161
Credited/(charged) to consolidated statement of changes in equity	117	(20)	97
Business combinations	–	(128)	(128)
Other additions	–	(986)	(986)
Currency translation differences	(13)	(64)	(77)
At 30 June 2018	11,172	(9,097)	2,075
At 1 January 2017	7,033	(5,153)	1,880
Credited/(charged) to consolidated income statement (Note 11)	1,073	(1,185)	(112)
Withholding tax paid	–	1,193	1,193
Credited/(charged) to consolidated statement of changes in equity	3	(32)	(29)
Currency translation differences	(33)	6	(27)
At 30 June 2017	8,076	(5,171)	2,905

Notes to the Interim Financial Information

21 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis, based on recognition date, are as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	6,311	4,399
31 ~ 60 days	6,111	6,394
61 ~ 90 days	3,373	2,259
Over 90 days	5,763	3,497
	21,558	16,549

The majority of the Group's accounts receivable were denominated in RMB.

Receivable balances as at 30 June 2018 and 31 December 2017 mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators.

Some online advertising customers and agencies are granted with a credit period of 90 days after full execution of the contracted advertisement orders. Third party platform providers and telecommunication operators usually settle the amounts due by them within 60 days and a period of 30 to 120 days, respectively.

As at 30 June 2018, insignificant amounts of accounts receivable were past due and related impairment provision was recognised after assessment of the financial condition and credit quality with reference to the past credit history.

As at 30 June 2018, the carrying amounts of the accounts receivable were approximate to their fair values.

Notes to the Interim Financial Information

22 SHARE CAPITAL

As at 30 June 2018 and 31 December 2017, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

No. of ordinary shares, issued and fully paid	Unaudited	
	Six months ended 30 June	
	2018	2017
At beginning of period	9,499,056,887	9,477,083,480
Issuance of shares under share option schemes	5,670,239	2,718,805
At end of period	9,504,727,126	9,479,802,285

As at 30 June 2018, the total number of issued ordinary shares of the Company included 64,902,756 shares (31 December 2017: 70,675,181 shares) held under the Share Award Schemes.

23 SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV.

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II expired on 31 December 2011, 23 March 2014 and 16 May 2017, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continue to be valid and exercisable in accordance with provisions of the schemes.

Notes to the Interim Financial Information

23 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

In respect of the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV which continue to be in force, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The exercise price must be in compliance with the requirement under the Rules Governing the Listing of Securities on the Stock Exchange. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 10-year period for the Post-IPO Option Scheme III and a 7-year period for the Post-IPO Option Scheme IV after the date of grant of option.

(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 II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		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 2018	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Granted	-	-	-	-	HKD410.21	22,491,840	22,491,840
Exercised	HKD106.48	(3,170,239)	HKD31.70	(2,500,000)	-	-	(5,670,239)
Lapsed	HKD131.47	(37,139)	-	-	HKD272.36	(91,490)	(128,629)
At 30 June 2018	HKD184.38	52,302,870	-	-	HKD371.03	31,556,210	83,859,080
Exercisable as at 30 June 2018	HKD160.05	22,212,605	-	-	-	-	22,212,605
At 1 January 2017	HKD120.95	31,247,436	HKD31.70	2,500,000	-	-	33,747,436
Granted	HKD225.44	28,526,215	-	-	-	-	28,526,215
Exercised	HKD34.84	(2,718,805)	-	-	-	-	(2,718,805)
Lapsed	HKD116.62	(75,220)	-	-	-	-	(75,220)
At 30 June 2017	HKD177.38	56,979,626	HKD31.70	2,500,000	-	-	59,479,626
Exercisable as at 30 June 2017	HKD114.53	13,108,559	HKD31.70	1,250,000	-	-	14,358,559

Notes to the Interim Financial Information

23 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the six months ended 30 June 2018, 3,215,800 options were granted to one director of the Company (six months ended 30 June 2017: 5,250,000 options were granted to one director of the Company).

As a result of the options exercised during the six months ended 30 June 2018, 5,670,239 ordinary shares (six months ended 30 June 2017: 2,718,805 ordinary shares) were issued by the Company (Note 22). The weighted average price of the shares at the time these options were exercised was HKD412.47 per share (equivalent to approximately RMB332.56 per share) (six months ended 30 June 2017: HKD267.20 per share (equivalent to approximately RMB234.13 per share)).

(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 2018 and 31 December 2017 are as follows:

Expiry Date	Range of exercise price	No. of share options	
		30 June 2018	31 December 2017
7 years commencing from the date of grant of options (Post-IPO Option Scheme II and Post-IPO Option Scheme IV)	HKD37.80~HKD49.76	156,250	1,633,050
	HKD112.30~HKD174.86	24,149,020	25,386,768
	HKD225.44~HKD272.36	36,972,405	37,556,725
	HKD403.16~HKD444.20	22,581,405	89,565
		83,859,080	64,666,108
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD31.70	–	2,500,000
		83,859,080	67,166,108

The outstanding share options as of 30 June 2018 were divided into two to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from one to three years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

Notes to the Interim Financial Information

23 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the “Enhanced FAS 123” binomial model (“Binomial Model”) to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the six months ended 30 June 2018 was HKD128.32 per share (equivalent to approximately RMB103.22 per share) (six months ended 30 June 2017: HKD67.79 per share (equivalent to approximately RMB60.09 per share)).

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

	Unaudited	
	Six months ended 30 June	
	2018	2017
Weighted average share price at the grant date	HKD409.32	HKD225.20
Risk free rate	1.77%~2.27%	1.53%
Dividend yield	0.24%~0.25%	0.34%
Expected volatility (Note)	30.00%	30.00%

Note:

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.

Notes to the Interim Financial Information

23 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted two share award schemes (the “Share Award Schemes”) as of 30 June 2018, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the six months ended 30 June 2018 and 2017 are as follows:

	No. of awarded shares	
	Six months ended 30 June	
	2018	2017
At beginning of period	63,636,254	86,365,812
Granted	3,766,965	4,555,895
Lapsed	(1,181,802)	(1,622,414)
Vested and transferred	(7,806,084)	(11,131,651)
At end of period	58,415,333	78,167,642
Vested but not transferred as at the end of period	89,313	193,648

During the six months ended 30 June 2018, 39,500 awarded shares were granted to four independent non-executive directors of the Company (six months ended 30 June 2017: 60,000 awarded shares were granted to four independent non-executive directors 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 dates. 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 2018 was HKD410.33 per share (equivalent to approximately RMB332.52 per share) (six months ended 30 June 2017: HKD236.68 per share (equivalent to approximately RMB209.28 per share)).

The outstanding awarded shares as of 30 June 2018 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

Notes to the Interim Financial Information

23 SHARE-BASED PAYMENTS (continued)

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the six months ended 30 June 2018 and 2017 were insignificant to the Group.

(d) Share option and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or 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 respective board of directors of these subsidiaries at their sole discretion. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

(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 options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 30 June 2018, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 88%-97% (31 December 2017: 88%-97%).

Notes to the Interim Financial Information

24 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis, based on recognition date, are as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	45,040	38,420
31 ~ 60 days	4,382	3,030
61 ~ 90 days	4,751	2,050
Over 90 days	6,665	6,585
	60,838	50,085

25 OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Staff costs and welfare accruals	11,148	13,451
Selling and marketing expense accruals	4,338	4,414
General and administrative expenses accruals	1,304	1,149
Purchase of land use rights and construction related costs	1,041	1,463
Interest payable	957	410
Purchase consideration payables for investee companies	272	1,045
Liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary	114	–
Others (Note)	7,557	7,501
	26,731	29,433

Note:

Others primarily consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.

Notes to the Interim Financial Information

26 LONG-TERM PAYABLES

	Unaudited 30 June 2018 RMB'Million	Audited 31 December 2017 RMB'Million
Payables relating to media contents and running royalty fee for online games	2,245	2,597
Purchase consideration payables for investee companies	1,756	336
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	943	225
Others	899	704
	5,843	3,862

27 BORROWINGS

	Unaudited 30 June 2018 RMB'Million	Audited 31 December 2017 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	72,591	76,326
Non-current portion of long-term RMB bank borrowings		
– unsecured (Note (a))	4,444	4,459
– secured (Note (a))	–	475
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	841	834
	77,876	82,094
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	5,293	1,307
HKD bank borrowings, unsecured (Note (b))	17,547	14,293
Current portion of long-term USD bank borrowings, unsecured (Note (a))	4,764	66
Current portion of long-term RMB bank borrowings		
– unsecured (Note (a))	30	30
– secured (Note (a))	475	–
	28,109	15,696
	105,985	97,790

Notes to the Interim Financial Information

27 BORROWINGS (continued)

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,691 million (31 December 2017: USD11,691 million), RMB4,949 million (31 December 2017: RMB4,964 million) and HKD1,000 million (31 December 2017: HKD1,000 million), respectively. Applicable interest rates are at LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings (31 December 2017: LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings) per annum.

The long-term bank borrowings were repayable as follows:

	Unaudited	Audited
	30 June 2018	31 December 2017
	RMB'Million	RMB'Million
Within 1 year	5,269	96
Between 1 and 2 years	13,143	9,947
Between 2 and 5 years	58,778	66,201
More than 5 years	5,955	5,946
	83,145	82,190

- (b) The aggregate principal amounts of short-term USD bank borrowings and short-term HKD bank borrowings were USD800 million (31 December 2017: USD200 million) and HKD20,850 million (31 December 2017: HKD17,133 million), respectively. These short-term borrowings are carried at LIBOR/HIBOR + 0.50% ~ 0.55% (31 December 2017: LIBOR/HIBOR + 0.50% ~ 0.55%) per annum.

During the six months ended 30 June 2018, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 30 June 2018 have been detailed in Note 19.

As at 30 June 2018, the carrying amounts of borrowings were approximate to their fair values.

Notes to the Interim Financial Information

28 NOTES PAYABLE

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	46,743	26,697
Non-current portion of long-term HKD notes payable	2,690	2,666
	49,433	29,363
Included in current liabilities:		
Current portion of long-term USD notes payable	13,218	3,919
Current portion of long-term HKD notes payable	841	833
	14,059	4,752
	63,492	34,115

The aggregate principal amounts of USD notes payable and HKD notes payable were USD9,100 million (31 December 2017: USD4,700 million) and HKD4,200 million (31 December 2017: HKD4,200 million), respectively. Applicable interest rates are at 2.30% ~ 4.70% and 3-month USD LIBOR + 0.605% (31 December 2017: 2.30% ~ 4.70%) per annum.

The notes payable were repayable as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Within 1 year	14,059	4,752
Between 1 and 2 years	9,952	13,044
Between 2 and 5 years	9,886	9,833
More than 5 years	29,595	6,486
	63,492	34,115

All of these notes payable issued by the Group were unsecured.

Notes to the Interim Financial Information

28 NOTES PAYABLE (continued)

On 19 January 2018, the Company issued four tranches of senior notes under the Global Medium Term Note Programme with aggregate principal amounts of USD5 billion as set out below:

	Amount (USD'Million)	Interest Rate (per annum)	Due
2023 Notes	1,000	2.985%	2023
2023 Floating Rate Notes	500	3-month USD LIBOR + 0.605%	2023
2028 Notes	2,500	3.595%	2028
2038 Notes	1,000	3.925%	2038
	<u>5,000</u>		

In March 2018, the notes payable with an aggregate principal amount of USD600 million issued in September 2012 reached their maturity and were repaid in full by the Group.

As at 30 June 2018, the fair value of the notes payable amounted to RMB62,199 million (31 December 2017: RMB34,691 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

29 DEFERRED REVENUE

Deferred revenue mainly comprises of contract liabilities in relation to the unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to JD.com and other investee companies in the future periods measured at their fair value on the inception dates (Note 15) and customer loyalty incentives offered to the customers.

30 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 30 June 2018.

Notes to the Interim Financial Information

31 COMMITMENTS

(a) Capital commitments

Capital commitments as at 30 June 2018 and 31 December 2017 are analysed as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	1,589	273
Purchase of other property, plant and equipment	219	153
Capital investments in investees	15,746	3,027
	17,554	3,453

(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
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	280	217
Later than one year and not later than five years	632	502
Later than five years	919	969
	1,831	1,688

Notes to the Interim Financial Information

31 COMMITMENTS (continued)

(c) Other commitments

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

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	8,714	6,089
Later than one year and not later than five years	9,252	10,376
Later than five years	2,253	2,237
	<u>20,219</u>	<u>18,702</u>

32 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 15 (Transactions with associates), Note 18 (Loans to investees and investees' shareholders), and Note 23 (Share-based payments) to this Interim Financial Information, the Group had no other material transactions with related parties for the six months ended 30 June 2018, and no other material related parties' balances as at 30 June 2018.

Notes to the Interim Financial Information

33 EVENT OCCURRING AFTER THE BALANCE SHEET DATE

(a) Proposed spin-off of Tencent Music Entertainment Group

The Company has submitted a proposal to the Stock Exchange pursuant to Practice Note 15 in relation to the proposed spin-off by way of a separate listing of its online music entertainment business operated by its majority-owned subsidiary, Tencent Music Entertainment Group, a leading online music entertainment platform in China, on a recognised stock exchange in the United States through a registered public offering (the “Proposed Spin-off”), and that the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

(b) Proposed acquisition of equity interests from shareholders of an associate of the Company

On 13 August 2018, China Literature Limited, a non-wholly owned subsidiary of the Company, entered into a share purchase agreement to purchase all the shares from the shareholders (including the Company) of an associate of the Company (Note 15(ii)), which is principally engaged in production and distribution of television series, web series and films, at an aggregate maximum consideration of approximately RMB15.5 billion, comprising approximately RMB5.3 billion payable to the Company and approximately RMB10.2 billion payable to other shareholders. The consideration will be settled by a combination of cash and new shares to be issued by China Literature Limited, subject to the terms and conditions stipulated in the share purchase agreement. As at the date of this interim report, the proposed acquisition has not been completed.

Other Information

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2018, 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 interest	Number of shares/ underlying shares held	Approximate % of shareholding
Ma Huateng	Corporate (Note 1)	819,507,500	8.62%
Lau Chi Ping Martin	Personal *	49,183,800 (Note 2)	0.52%
Li Dong Sheng	Personal *	52,800 (Note 3)	0.0006%
Iain Ferguson Bruce	Personal *	405,000 (Note 4)	0.004%
Ian Charles Stone	Personal * Family ⁺	193,000 <hr/> 240,000 433,000 (Note 5)	0.005%
Yang Siu Shun	Personal *	31,474 (Note 6)	0.0003%

Other Information

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng, holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.
 2. The interest comprises 31,968,000 shares and 17,215,800 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”.
 3. The interest comprises 25,050 shares and 27,750 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
 4. The interest comprises 352,500 shares and 52,500 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
 5. The interest comprises 377,500 shares and 55,500 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
 6. The interest comprises 5,368 shares and 26,106 underlying shares in respect of the awarded shares granted pursuant to the 2013 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 of the Company

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Approximate % of shareholding
Ma Huateng	Tencent Computer	Personal	RMB35,285,705 (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 2018.

Other Information

SHARE OPTION SCHEMES

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV. The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II expired on 31 December 2011, 23 March 2014 and 16 May 2017 respectively. In respect of the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. Movements of the options under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV during the six months ended 30 June 2018 are detailed in Note 23 to the Interim Financial Information as included in this interim report.

As at 30 June 2018, there were a total of 17,215,800 outstanding share options granted to a director of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options			As at 30 June 2018	Exercise price HKD	Exercise period
		As at 1 January 2018	Granted during the period	Exercised during the period			
Lau Chi Ping Martin	24 March 2010	2,500,000	–	2,500,000 (Note 4)	–	31.70	24 March 2015 to 23 March 2020 (Note 1)
	25 March 2014	5,000,000	–	–	5,000,000	114.52	25 March 2015 to 24 March 2021 (Note 2)
	21 March 2016	3,750,000	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 3)
	24 March 2017	5,250,000	–	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 3)
	9 April 2018	–	3,215,800 (Note 5)	–	3,215,800	410.00	9 April 2019 to 8 April 2025 (Note 3)
Total:		<u>16,500,000</u>	<u>3,215,800</u>	<u>2,500,000</u>	<u>17,215,800</u>		

Other Information

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 5 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
4. The closing price immediately before the date on which the options were exercised on 28 March 2018 was HKD432.2.
5. The closing price immediately before the date on which the options were granted on 9 April 2018 was HKD405.8.
6. No options were cancelled or lapsed during the period.

Other Information

Details of movements of share options granted to employees of the Group (apart from director(s) of the Company) during the six months ended 30 June 2018 are as follows:

Date of grant	Number of share options				As at 30 June 2018	Exercise price HKD	Exercise period
	As at 1 January 2018	Granted during the period	Exercised during the period (Note 13)	Lapsed during the period			
24 Mar 2011	646,250	–	646,250	–	–	38.88	24 Mar 2014 to 23 Mar 2018 (Note 1)
15 Aug 2011	58,800	–	40,000	–	18,800	37.80	15 Aug 2012 to 14 Aug 2018 (Note 2)
15 Aug 2011	342,125	–	274,550	–	67,575	37.80	15 Aug 2013 to 14 Aug 2018 (Note 3)
15 Aug 2011	25,000	–	–	–	25,000	37.80	15 Aug 2014 to 14 Aug 2018 (Note 1)
13 Sep 2012	560,875	–	516,000	–	44,875	49.76	13 Sep 2013 to 12 Sep 2019 (Note 2)
25 Mar 2014	2,562,500	–	–	–	2,562,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 4)
25 Mar 2014	3,570,000	–	425,000	–	3,145,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 2)
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 4)
10 Jul 2014	1,138,005	–	223,399	26,313	888,293	124.30	10 Jul 2015 to 9 Jul 2021 (Note 5)
12 Dec 2014	80,650	–	–	–	80,650	116.40	12 Dec 2016 to 11 Dec 2021 (Note 6)
2 Apr 2015	525,000	–	–	–	525,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 5)
10 Jul 2015	739,804	–	65,461	10,826	663,517	148.90	10 Jul 2016 to 9 Jul 2022 (Note 5)
21 Mar 2016	6,675,000	–	450,000	–	6,225,000	158.10	21 Mar 2017 to 20 Mar 2023 (Note 5)
6 Jul 2016	1,283,309	–	36,749	–	1,246,560	174.86	6 Jul 2017 to 5 Jul 2023 (Note 5)
24 Mar 2017	1,417,930	–	99,080	–	1,318,850	225.44	24 Mar 2018 to 23 Mar 2024 (Note 7)
24 Mar 2017	21,822,500	–	393,750	–	21,428,750	225.44	24 Mar 2018 to 23 Mar 2024 (Note 5)
10 Jul 2017	13,405	–	–	–	13,405	272.36	10 Jul 2018 to 9 Jul 2024 (Note 4)
10 Jul 2017	9,020,095	–	–	91,490	8,928,605	272.36	10 Jul 2018 to 9 Jul 2024 (Note 5)
10 Jul 2017	25,340	–	–	–	25,340	272.36	10 Jul 2019 to 9 Jul 2024 (Note 6)
10 Jul 2017	7,455	–	–	–	7,455	272.36	10 Jul 2020 to 9 Jul 2024 (Note 8)
23 Nov 2017	89,565	–	–	–	89,565	419.60	23 Nov 2018 to 22 Nov 2024 (Note 4)
16 Jan 2018	–	155,050	–	–	155,050	444.20	16 Jan 2019 to 15 Jan 2025 (Notes 4 and 9)
9 Apr 2018	–	2,082,920	–	–	2,082,920	410.00	9 Apr 2019 to 8 Apr 2025 (Notes 7 and 10)
9 Apr 2018	–	235,515	–	–	235,515	410.00	9 Apr 2019 to 8 Apr 2025 (Notes 4 and 10)
9 Apr 2018	–	16,692,585	–	–	16,692,585	410.00	9 Apr 2019 to 8 Apr 2025 (Notes 5 and 10)
24 May 2018	–	26,390	–	–	26,390	407.00	24 May 2019 to 23 May 2025 (Notes 4 and 11)

Other Information

Date of grant	Number of share options				As at 30 June 2018	Exercise price HKD	Exercise period
	As at 1 January 2018	Granted during the period	Exercised during the period (Note 13)	Lapsed during the period			
22 Jun 2018	–	13,055	–	–	13,055	403.16	22 Jun 2019 to 21 Jun 2025 (Notes 7 and 12)
22 Jun 2018	–	70,525	–	–	70,525	403.16	22 Jun 2019 to 21 Jun 2025 (Notes 4 and 12)
Total:	<u>50,666,108</u>	<u>19,276,040</u>	<u>3,170,239</u>	<u>128,629</u>	<u>66,643,280</u>		

Note:

- For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 3 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 2 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 1 year after the grant date, and each 33.33% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 2 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options can be exercised 1 year after the grant date, and the remaining 50% of the total options will become exercisable in the subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 3 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- The closing price immediately before the date on which the options were granted on 16 January 2018 was HKD433.2.
- The closing price immediately before the date on which the options were granted on 9 April 2018 was HKD405.8.
- The closing price immediately before the date on which the options were granted on 24 May 2018 was HKD407.
- The closing price immediately before the date on which the options were granted on 22 June 2018 was HKD396.8.
- The weighted average closing price immediately before the date on which the options were exercised was HKD426.3.

Other Information

Details of movements of share options granted to employees and certain external consultants under the share option schemes adopted by Tencent Music, a subsidiary of the Group, during the six months ended 30 June 2018 are as follows:

Date of grant	Number of share options					As at 30 June 2018	Exercise price (Note 4)	Exercise period
	As at 1 January 2018	Anti-dilution adjustments during the period (Note 4)	Granted during the period	Exercised during the period	Lapsed during the period			
Employees								
1 Mar 2015	11,924,136	1,054,796	–	–	7,592	12,971,340	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	9,939,200	879,143	–	–	119,798	10,698,545	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
30 Mar 2015	3,444,042	304,608	–	–	–	3,748,650	0.27	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Jul 2015	200,000	17,690	–	–	142,590	75,100	0.27	1 July 2016 to 30 Jun 2025 (Note 1)
1 Oct 2015	780,600	69,000	–	–	54,305	795,295	0.27	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	2,933,281	259,242	–	–	101,980	3,090,543	0.27	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	212,000	18,750	–	–	–	230,750	0.000076	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	761,000	67,270	–	–	41,360	786,910	0.27	1 Mar 2017 to 28 Feb 2026 (Note 1)
31 Mar 2016	340,500	30,115	–	–	–	370,615	0.27	31 Mar 2017 to 30 Mar 2026 (Note 1)
1 Jun 2016	6,521,513	576,827	–	–	–	7,098,340	0.27	1 Jun 2017 to 31 May 2026 (Note 2)
30 Jun 2016	600,000	53,070	–	–	–	653,070	0.000076	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	10,863,902	961,076	–	–	562,563	11,262,415	0.27	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	2,468,764	218,362	–	–	–	2,687,126	2.32	5 Jul 2017 to 15 Jun 2027 (Note 3)
16 Jun 2017	9,565,716	846,088	–	–	–	10,411,804	2.32	31 Mar 2018 to 15 Jun 2027 (Note 3)
31 Aug 2017	7,666,803	678,087	–	–	452,478	7,892,412	0.27	31 Aug 2018 to 30 Aug 2027 (Note 1)
20 Dec 2017	7,260,103	642,177	–	–	–	7,902,280	2.32	20 Dec 2018 to 19 Dec 2027 (Note 3)
16 Apr 2018	–	–	1,300,000	–	–	1,300,000	4.04	16 Apr 2018 to 15 Apr 2028 (Note 3)
Sub-total:	<u>75,481,560</u>	<u>6,676,301</u>	<u>1,300,000</u>	<u>–</u>	<u>1,482,666</u>	<u>81,975,195</u>		
External consultants								
1 Mar 2015	2,348,099	207,701	–	–	–	2,555,800	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	<u>2,630,000</u>	<u>232,650</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,862,650</u>	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	<u>4,978,099</u>	<u>440,351</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,418,450</u>		
Total:	<u>80,459,659</u>	<u>7,116,652</u>	<u>1,300,000</u>	<u>–</u>	<u>1,482,666</u>	<u>87,393,645</u>		

Other Information

Note:

1. The first 25% of the total options can be exercised 1 year after the commencement dates as specified in the relevant grant letters, and each 12.5% of the total options will become exercisable in each subsequent six months.
2. All the options can be exercised 1 year after the commencement date as specified in the relevant grant letter if a certain condition is satisfied.
3. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised from the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
4. In May 2018, in order to offset the dilution effect resulting from the share dividend distributed in December 2017, Tencent Music made certain adjustments pursuant to the anti-dilution clause under the share option schemes, to the number of share options outstanding, the applicable exercise price and the number of shares available for issuance for future share options under its share option schemes.

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 terminated earlier 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. 178,776,160 shares) and one percent (i.e. 89,388,080 shares) of the issued shares of the Company respectively as at the Adoption Date I.

Pursuant to the 2007 Share Award Scheme, the Board shall select the Eligible Person(s) 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 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 after the relevant vesting dates.

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 awarded under the 2013 Share Award Scheme and to a Selected Participant are limited to three percent (i.e. 278,937,260 shares) and one percent (i.e. 92,979,085 shares) of the issued shares 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.

Subject to the rules of the 2013 Share Award Scheme, 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 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 the Trustee at the cost of the Company or shares will be allotted to the Trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time (except for those shares granted to the directors or substantial shareholders of the Company), and will be held in trust for the Selected Participants until the end of each vesting period. Vested shares will be transferred at no cost to the Selected Participants.

Other Information

During the six months ended 30 June 2018, a total of 3,766,965 Awarded Shares were granted under the 2013 Share Award Scheme and out of which 39,500 Awarded Shares 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 2018 are set out in Note 23 to the Interim Financial Information as included in this interim report.

As at 30 June 2018, there were a total of 161,856 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

Name of director	Date of grant	Number of Awarded Shares			As at 30 June 2018	Vesting period
		As at 1 January 2018	Granted during the period	Vested during the period		
Iain Ferguson Bruce	24 March 2014	20,000	–	10,000	10,000	24 March 2015 to 24 March 2019
	2 April 2015	15,000	–	7,500	7,500	2 April 2016 to 2 April 2019
	21 March 2016	15,000	–	5,000	10,000	21 March 2017 to 21 March 2020
	24 March 2017	20,000	–	5,000	15,000	24 March 2018 to 24 March 2021
	9 April 2018	–	10,000	–	10,000	9 April 2019 to 9 April 2022
	Total:		70,000	10,000	27,500	52,500
Ian Charles Stone	24 March 2014	20,000	–	10,000	10,000	24 March 2015 to 24 March 2019
	2 April 2015	15,000	–	7,500	7,500	2 April 2016 to 2 April 2019
	21 March 2016	15,000	–	5,000	10,000	21 March 2017 to 21 March 2020
	24 March 2017	20,000	–	5,000	15,000	24 March 2018 to 24 March 2021
	9 April 2018	–	13,000	–	13,000	9 April 2019 to 9 April 2022
	Total:		70,000	13,000	27,500	55,500

Other Information

Name of director	Date of grant	As at 1 January 2018	Number of Awarded Shares		As at 30 June 2018	Vesting period
			Granted during the period	Vested during the period		
Li Dong Sheng	24 March 2014	10,000	–	5,000	5,000	24 March 2015 to 24 March 2019
	2 April 2015	7,500	–	3,750	3,750	2 April 2016 to 2 April 2019
	21 March 2016	7,500	–	2,500	5,000	21 March 2017 to 21 March 2020
	24 March 2017	10,000	–	2,500	7,500	24 March 2018 to 24 March 2021
	9 April 2018	–	6,500	–	6,500	9 April 2019 to 9 April 2022
	Total:	<u>35,000</u>	<u>6,500</u>	<u>13,750</u>	<u>27,750</u>	
Yang Siu Shun	6 July 2016	8,606	–	–	8,606	6 July 2017 to 6 July 2020
	24 March 2017	10,000	–	2,500	7,500	24 March 2018 to 24 March 2021
	9 April 2018	–	10,000	–	10,000	9 April 2019 to 9 April 2022
	Total:	<u>18,606</u>	<u>10,000</u>	<u>2,500</u>	<u>26,106</u>	
Grand Total:	<u><u>193,606</u></u>	<u><u>39,500</u></u>	<u><u>71,250</u></u>	<u><u>161,856</u></u>		

Other Information

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 46, 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 13th 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 24 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which has an interest in the 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. Mr Ma also serves as a director of certain subsidiaries of the Company. Mr Ma is entitled to an annual base salary of RMB7,476,300 in 2018 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 45, 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 the New York Stock Exchange since April 2014. On 29 December 2017, Mr Lau was appointed as a director of Vipshop Holdings Limited, an online discount retailer company listed on the New York Stock Exchange. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company. Mr Lau is entitled to an annual base salary of USD1,120,000 in 2018 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 (Koos) Bekker, age 65, has been a non-executive director since November 2012. Koos led the founding team of the M-Net/MultiChoice pay-television business in 1985. He was also a founder director of MTN in cellular telephony. Koos headed the MIH group in its international and Internet expansions until 1997, when he became chief executive of Naspers. He serves on the boards of other companies within the group and associates, as well as other bodies. In April 2015, he became non-executive chair. Academic qualifications include BA Hons and honorary doctorate in commerce (Stellenbosch University), LLB (University of the Witwatersrand) and MBA (Columbia University, New York). Koos as a non-executive director is not entitled to any director's fee or emoluments.

Charles St Leger Searle, age 54, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, including Mail.ru Group Limited that is listed on the London Stock Exchange and MakeMyTrip Limited that is listed on NASDAQ. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 24 years of international experience in the telecommunications and Internet industries. Mr Searle also serves as a director of certain subsidiaries of the Company. Mr Searle as a non-executive director is not entitled to any director's fee or emoluments.

Li Dong Sheng, age 61, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation, which produces consumer electronic products and is listed on the Shenzhen Stock Exchange. 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 graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 23 years of experience in the information technology field. Mr Li is the Chairman of TCL Communication Technology Holdings Limited, which was delisted for privatisation from the Stock Exchange on 30 September 2016. Mr Li was the Chairman and executive director of TCL Multimedia Technology Holdings Limited (now known as TCL Electronics Holdings Limited) that is listed on the Stock Exchange up to 22 September 2017, and was also an independent director of Legrand that is listed on the New York Stock Exchange Euronext up to 30 May 2018. Mr Li is entitled to a director's fee of HK\$800,000 per annum for the year 2018, which is determined with reference to his duties and responsibilities with the Company.

Other Information

Iain Ferguson Bruce, age 77, 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 53 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is an independent non-executive director of 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, South Shore Holdings Limited (formerly known as The 13 Holdings Limited), a construction, engineering services and hotel development 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 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 Sands China Ltd., an operator of integrated resorts and casinos that is publicly listed on the Stock Exchange, up to 11 March 2016. Mr Bruce was also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited, up to 11 May 2017, and was also an independent non-executive director of Citibank (Hong Kong) Limited, up to 2 August 2017. Mr Bruce is entitled to a director's fee of HK\$1,100,000 per annum for the year 2018, which is determined with reference to his duties and responsibilities with the Company.

Ian Charles Stone, age 67, has been an independent non-executive director since April 2004. Mr Stone is currently an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. His career in the last 28 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. Since 2011, Mr Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong, China, South East Asia and the Middle East. Mr Stone has more than 47 years of experience in the telecom and mobile industries. Mr Stone is a fellow member of The Hong Kong Institute of Directors. Mr Stone also serves as an independent non-executive director of a subsidiary of the Company. Mr Stone is entitled to a director's fee of HK\$1,100,000 per annum for the year 2018, which is determined with reference to his duties and responsibilities with the Company.

Other Information

Yang Siu Shun, age 62, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a Steward of the Hong Kong Jockey Club, the Deputy Chairman of the Council of the Open University of Hong Kong, a Board Member and the Audit Committee Chairman of the Hang Seng Management College and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the Stock Exchange and the Shanghai Stock Exchange. Mr Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr Yang graduated from the London School of Economics and Political Science in 1978. Mr Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. Mr Yang is entitled to a director's fee of HK\$1,000,000 per annum for the year 2018, which is determined with reference to his duties and responsibilities with the Company.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the following persons, other than the directors or chief executive of the Company, had interests or short positions 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 shares of the Company:

Long/ short position in the shares of the Company

Name of shareholder	Long/ short position	Nature of interest/ capacity	Number of shares/ underlying shares held	Approximate % of shareholding
MIH TC	Long position	Corporate (Note 1)	2,961,223,600	31.16%
Advance Data Services Limited	Long position	Corporate (Note 2)	819,507,500	8.62%
JPMorgan Chase & Co.	Long position	Beneficial owner	155,352,179	
		Investment manager	90,012,699	
		Trustee	56,361	
		Approved lending agent	248,043,281	
		Total (Note 3(i)):	493,464,520	5.19%
	Short position	Beneficial owner (Note 3(ii))	157,329,059	1.65%

Other Information

Note:

1. MIH TC is controlled by Naspers Limited through its wholly-owned intermediary companies, MIH Services FZ LLC, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited. As such, Naspers Limited, MIH Services FZ LLC, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited are deemed to be interested in the same block of 2,961,223,600 shares under Part XV of the SFO.
2. Advance Data Services Limited holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of “Directors’ Interests in Securities”.
3. (i) Such long position includes derivative interests in 62,456,872 underlying shares of the Company of which 15,937,584 underlying shares are derived from listed and physically settled derivatives, 963,600 underlying shares are derived from listed and cash settled derivatives, 28,010,763 underlying shares are derived from unlisted and physically settled derivatives and 17,544,925 underlying shares are derived from unlisted and cash settled derivatives. It also includes 248,043,281 shares in lending pool.

(ii) Such short position includes derivative interests in 130,583,140 underlying shares of the Company of which 19,074,040 underlying shares are derived from listed and physically settled derivatives, 25,200,260 underlying shares are derived from listed and cash settled derivatives, 15,644,124 underlying shares are derived from unlisted and physically settled derivatives and 70,664,716 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 the directors or chief executive of the Company) who, as at 30 June 2018, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Other Information

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

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 2018.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 48,684 employees (30 June 2017: 40,678). 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 programmes, 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 2018 was RMB19,938 million (for the six months ended 30 June 2017: RMB16,017 million).

AUDIT COMMITTEE

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 2018. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

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 period covered by this interim report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed in the corporate governance report in the 2017 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions as set out in the CG Code during the period from 1 January 2018 to 30 June 2018.

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, as amended
“2018 AGM”	the annual general meeting of the Company held on 16 May 2018
“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
“AI”	artificial intelligence
“ARPU”	average revenue per user
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Awarded Share(s)”	the share(s) of the Company awarded under the Share Award Schemes
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“China Literature”	China Literature Limited, a non-wholly owned subsidiary of the Company, which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“eCPM”	effective cost per mille
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes

Definition

Term	Definition
“EPS”	earnings per share
“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
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MIH TC”	MIH TC Holdings Limited
“MMORPG”	Massive Multiplayer Online Role Playing Game
“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
“O2O”	online-to-offline, or offline-to-online
“PC”	personal computer
“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
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017

Definition

Term	Definition
“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
“PUBG”	PlayerUnknown’s Battlegrounds
“R&D”	research and development
“RMB”	the lawful currency of the PRC
“RPG”	role playing game
“Selected Participant(s)”	any Eligible Person(s) selected by the Board to participate in the Share Award Schemes
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share Award Schemes”	the 2007 Share Award Scheme and the 2013 Share Award Scheme
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“Tencent Music”	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services

Tencent 腾讯

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