

Tencent 騰訊

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)



smart communication inspires

智慧溝通 靈感無限

2016
INTERIM REPORT

Contents

Corporate Information	2
Financial Performance Highlights	3
Chairman's Statement	5
Management Discussion and Analysis	8
Report on Review of Interim Financial Information	20
Consolidated Income Statement	21
Consolidated Statement of Comprehensive Income	22
Consolidated Statement of Financial Position	23
Consolidated Statement of Changes in Equity	26
Consolidated Statement of Cash Flows	28
Notes to the Interim Financial Information	30
Other Information	67
Definition	82



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

(appointed with effect from

1 July 2016)

AUDIT COMMITTEE

Iain Ferguson Bruce (*Chairman*)

Ian Charles Stone

Charles St Leger Searle

Yang Siu Shun

(appointed with effect from

1 July 2016)

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

(appointed with effect from

1 July 2016)

INVESTMENT COMMITTEE

Lau Chi Ping Martin (*Chairman*)

Ma Huateng

Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng (*Chairman*)

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Charles St Leger Searle

REMUNERATION COMMITTEE

Ian Charles Stone (*Chairman*)

Li Dong Sheng

Jacobus Petrus (Koos) Bekker

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking

Corporation Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

TENCENT GROUP HEAD OFFICE

Tencent Building

Kejizhongyi Avenue

Hi-tech Park

Nanshan District

Shenzhen, 518057

The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29/F., Three Pacific Place

No. 1 Queen's Road East

Wanchai

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company

(Cayman) Limited

4th Floor, Royal Bank House

24 Shedden Road, George Town

Grand Cayman KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

Financial Performance Highlights

FIRST HALF OF 2016

	Unaudited		
	Six months ended		
	30 June 2016	30 June 2015	Year-on-year change
	(RMB in millions, unless specified)		
Revenues	67,686	45,828	48%
Gross profit	39,045	27,872	40%
Operating profit	27,727	19,408	43%
Profit for the period	20,148	14,326	41%
Profit attributable to equity holders of the Company	19,920	14,197	40%
Non-GAAP profit attributable to equity holders of the Company	21,351	15,177	41%
EPS (RMB per share)			
– basic	2.128	1.528	39%
– diluted	2.102	1.512	39%
Non-GAAP EPS (RMB per share)			
– basic	2.280	1.634	40%
– diluted	2.253	1.616	39%

Financial Performance Highlights

SECOND QUARTER OF 2016

	30 June 2016	Unaudited Three months ended		31 March 2016	Quarter- on-quarter change
		30 June 2015	Year- on-year change		
(RMB in millions, unless specified)					
Revenues	35,691	23,429	52%	31,995	12%
Gross profit	20,456	14,438	42%	18,589	10%
Operating profit	14,329	10,036	43%	13,398	7%
Profit for the period	10,880	7,396	47%	9,268	17%
Profit attributable to equity holders of the Company	10,737	7,314	47%	9,183	17%
Non-GAAP profit attributable to equity holders of the Company	11,319	7,975	42%	10,032	13%
EPS (RMB per share)					
– basic	1.146	0.787	46%	0.981	17%
– diluted	1.133	0.778	46%	0.970	17%
Non-GAAP EPS (RMB per share)					
– basic	1.208	0.858	41%	1.072	13%
– diluted	1.194	0.849	41%	1.059	13%

Chairman's Statement

I am pleased to present our interim report for the three and six months ended 30 June 2016 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 2016 increased by 47% and 40% on a year-on-year basis to RMB10,737 million and RMB19,920 million respectively. Basic EPS for the three and six months ended 30 June 2016 were RMB1.146 and RMB2.128 respectively. Diluted EPS for the three and six months ended 30 June 2016 were RMB1.133 and RMB2.102 respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the three and six months ended 30 June 2016 increased by 42% and 41% on a year-on-year basis to RMB11,319 million and RMB21,351 million respectively. Non-GAAP basic EPS for the three and six months ended 30 June 2016 were RMB1.208 and RMB2.280 respectively. Non-GAAP diluted EPS for the three and six months ended 30 June 2016 were RMB1.194 and RMB2.253 respectively.

BUSINESS REVIEW AND OUTLOOK

Company Strategic Highlights

In recent months, we have conducted several initiatives to develop our online games and digital content businesses, such as:

- Growing our digital music business via integrating QQ Music with CMC, which operates another leading music streaming platform. We believe there is tremendous growth potential in the China digital music industry, and look forward to the integrated operations facilitating users to discover more music, artists to reach out to more fans, and the music industry to create new products and business models.
- Deepening our presence in mobile games via leading a consortium to acquire a majority equity stake in Supercell, the maker of globally popular titles such as Clash of Clans and Clash Royale. Supercell's founding team will continue to manage the company independently, enhancing their existing games and developing new games, and leveraging Tencent's platforms and expertise to expand in China.
- Reinforcing our online video business' upstream presence via further investing in film/TV series studios and in our own production projects.
- Developing our online literature services via working closely with industry peers to combat piracy, so as to provide more sustainable and healthy revenue for authors and for the industry.

During the quarter we also made organic progress around our other strategic priorities, such as building out our mobile ecosystem for Weixin and Mobile QQ users, enhancing our enterprise communications products, expanding our cloud services capabilities and customer base, and facilitating consumers to use our payment solutions for merchant transactions.

Chairman's Statement

Value-Added Services

In the second quarter of 2016, our social networks business sustained strong revenue growth as we increased virtual item sales and as our digital content subscription services became more popular.

For PC client games, we generated high single digit year-on-year revenue growth, with increased contributions from existing titles in genres such as sports, music, and action RPG, as well as from newer titles in genres such as RPG and shooter.

For smart phone games, we achieved approximately RMB9.6 billion revenue¹ in the second quarter, representing 114% year-on-year revenue growth, with increased contributions from our major PVP titles, as well as new RPG titles.

Online Advertising

During the second quarter of 2016, our online media platform traffic and advertising revenue continued to grow, with most of our traffic and about 80% of revenue generated on mobile platforms. Our Tencent Video views increased, supported by popular content such as our exclusive NBA rights in China, where unique viewers more than doubled online for the 2015-2016 season versus the 2014-2015 season, when the rights were split between multiple platforms. Our self-service tools enabled regional advertisers to purchase targeted traffic in low-tier cities on Weixin Moments, and we added new advertising formats, such as carousels on Qzone.

DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

APPRECIATION

On behalf of the Board, I would like to express our sincere appreciation to all our staff and management team for their dedication, diligence and commitment. I would also like to thank all our shareholders and stakeholders for their continuing confidence and support. Looking forward, we will strive to enrich our platforms with quality products and services for the healthy development of a prosperous Internet ecosystem.

Ma Huateng

Chairman

Hong Kong, 17 August 2016

¹ Including smart phone games revenue attributable to our social networks business.

Management Discussion and Analysis

SECOND QUARTER OF 2016 COMPARED TO SECOND QUARTER OF 2015

The following table sets forth the comparative figures for the second quarter of 2016 and the second quarter of 2015:

	Unaudited	
	Three months ended	
	30 June	30 June
	2016	2015
	(RMB in millions)	
Revenues	35,691	23,429
Cost of revenues	(15,235)	(8,991)
Gross profit	20,456	14,438
Interest income	626	598
Other gains, net	911	612
Selling and marketing expenses	(2,365)	(1,601)
General and administrative expenses	(5,299)	(4,011)
Operating profit	14,329	10,036
Finance costs, net	(377)	(341)
Share of losses of associates and joint ventures	(292)	(452)
Profit before income tax	13,660	9,243
Income tax expense	(2,780)	(1,847)
Profit for the period	10,880	7,396
Attributable to:		
Equity holders of the Company	10,737	7,314
Non-controlling interests	143	82
	10,880	7,396
Non-GAAP profit attributable to equity holders of the Company	11,319	7,975

Management Discussion and Analysis

Revenues. Revenues increased by 52% to RMB35,691 million for the second quarter of 2016 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2016 and the second quarter of 2015:

	Unaudited			
	Three months ended			
	30 June 2016		30 June 2015	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	25,680	72%	18,428	79%
Online advertising	6,532	18%	4,073	17%
Others	3,479	10%	928	4%
Total revenues	<u>35,691</u>	<u>100%</u>	<u>23,429</u>	<u>100%</u>

- Revenues from our VAS business increased by 39% to RMB25,680 million for the second quarter of 2016 on a year-on-year basis. Online games revenues grew by 32% to RMB17,124 million. The increase was primarily driven by contributions from our major PVP and RPG genre smart phone games, and to a lesser extent by several PC games. Social networks revenues increased by 57% to RMB8,556 million. The increase was driven by virtual item sales and revenue growth from subscription services, especially those for digital content services such as video, music, and literature.
- Revenues from our online advertising business increased by 60% to RMB6,532 million for the second quarter of 2016 on a year-on-year basis. Performance-based advertising revenues grew by 80% to RMB3,697 million, mainly reflecting growth in performance advertising revenues from Weixin Moments, our mobile news app, and Weixin Official Accounts. Brand display advertising revenues increased by 41% to RMB2,835 million, primarily driven by revenue growth from Tencent News and Tencent Video.
- Revenues from our others businesses increased by 275% to RMB3,479 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly due to higher revenues from our payment related and cloud services.

Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 69% to RMB15,235 million for the second quarter of 2016 on a year-on-year basis. The increase mainly reflected greater sharing and content costs, costs of payment related services, and channel costs, due to our changing revenue mix. As a percentage of revenues, cost of revenues increased to 43% for the second quarter of 2016 from 38% for the second quarter of 2015. The following table sets forth our cost of revenues by line of business for the second quarter of 2016 and the second quarter of 2015:

	Unaudited			
	Three months ended			
	30 June 2016		30 June 2015	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	8,550	33%	6,221	34%
Online advertising	3,575	55%	1,961	48%
Others	3,110	89%	809	87%
Total cost of revenues	<u>15,235</u>		<u>8,991</u>	

- Cost of revenues for our VAS business increased by 37% to RMB8,550 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater sharing and content costs, as well as channel costs, as our online games revenues grew.
- Cost of revenues for our online advertising business increased by 82% to RMB3,575 million for the second quarter of 2016 on a year-on-year basis. The increase primarily reflected greater investment in video content, and to lesser extents increased traffic acquisition costs and commission expenses.
- Cost of revenues for our others businesses increased by 284% to RMB3,110 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater costs of payment related services.

Management Discussion and Analysis

Other gains, net. We recorded other gains, net of RMB911 million for the second quarter of 2016, which primarily consisted of net disposal/deemed disposal gains arising from certain investee companies, fair value gains on options we own in an investee company, as well as subsidies and tax rebates, partly offset by impairment provision charges for certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 48% to RMB2,365 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater marketing spending as a result of our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for the second quarter of 2016, broadly stable compared to the second quarter of 2015.

General and administrative expenses. General and administrative expenses increased by 32% to RMB5,299 million for the second quarter of 2016 on a year-on-year basis. The increase primarily reflected greater research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses decreased to 15% for the second quarter of 2016 from 17% for the second quarter of 2015.

Finance costs, net. Finance costs, net increased by 11% to RMB377 million for the second quarter of 2016 on a year-on-year basis, mainly due to greater amount of indebtedness.

Income tax expense. Income tax expense increased by 51% to RMB2,780 million for the second quarter of 2016 on a year-on-year basis. The increase primarily reflected greater profit before income tax and the recognition of withholding tax in the second quarter of 2016.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 47% to RMB10,737 million for the second quarter of 2016 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 42% to RMB11,319 million.

Management Discussion and Analysis

SECOND QUARTER OF 2016 COMPARED TO FIRST QUARTER OF 2016

The following table sets forth the comparative figures for the second quarter of 2016 and the first quarter of 2016:

	Unaudited	
	Three months ended	
	30 June	31 March
	2016	2016
	(RMB in millions)	
Revenues	35,691	31,995
Cost of revenues	(15,235)	(13,406)
Gross profit	20,456	18,589
Interest income	626	703
Other gains, net	911	506
Selling and marketing expenses	(2,365)	(2,032)
General and administrative expenses	(5,299)	(4,368)
Operating profit	14,329	13,398
Finance costs, net	(377)	(491)
Share of losses of associates and joint ventures	(292)	(1,089)
Profit before income tax	13,660	11,818
Income tax expense	(2,780)	(2,550)
Profit for the period	10,880	9,268
Attributable to:		
Equity holders of the Company	10,737	9,183
Non-controlling interests	143	85
	10,880	9,268
Non-GAAP profit attributable to equity holders of the Company	11,319	10,032

Management Discussion and Analysis

Revenues. Revenues increased by 12% to RMB35,691 million for the second quarter of 2016 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 3% to RMB25,680 million for the second quarter of 2016. Online games revenues were RMB17,124 million for the second quarter of 2016, stable compared to the first quarter of 2016. This primarily reflected revenue growth from our major PVP smart phone games such as Honor of Kings and Cross Fire Mobile, as well as contributions from new RPG smart phone games such as Dragon Ball Z Mobile, JX Mobile and ZhengTu Mobile, largely offset by weaker seasonality for our PC client games. Social networks revenues increased by 9% to RMB8,556 million. The increase was mainly driven by higher revenues from virtual item sales and from digital content subscription services.
- Revenues from our online advertising business increased by 39% to RMB6,532 million for the second quarter of 2016. Performance-based advertising revenues climbed by 46% to RMB3,697 million, mainly due to increased advertising revenues from Weixin Moments and positive seasonality. Brand display advertising revenues climbed by 31% to RMB2,835 million, primarily due to positive seasonality, increased revenues from Tencent News, and increased revenues from Tencent Video.

Cost of revenues. Cost of revenues increased by 14% to RMB15,235 million for the second quarter of 2016 on a quarter-on-quarter basis. The increase primarily reflected greater costs of payment related services, sharing and content costs, as well as channel costs. As a percentage of revenues, cost of revenues increased to 43% for the second quarter of 2016 from 42% for the first quarter of 2016.

- Cost of revenues for our VAS business was RMB8,550 million for the second quarter of 2016, broadly stable compared to the first quarter of 2016. This primarily reflected greater channel costs, largely offset by a decrease in sharing and content costs.
- Cost of revenues for our online advertising business increased by 35% to RMB3,575 million for the second quarter of 2016. The increase was mainly driven by greater investment in video content and commissions payable to advertising agencies.

Selling and marketing expenses. Selling and marketing expenses increased by 16% to RMB2,365 million for the second quarter of 2016 on a quarter-on-quarter basis. The increase primarily reflected seasonally more advertising and promotional activities in the second quarter than the first quarter, as well as greater marketing spending due to business expansion.

General and administrative expenses. General and administrative expenses increased by 21% to RMB5,299 million for the second quarter of 2016 on a quarter-on-quarter basis. The increase was mainly driven by greater research and development expenses and staff costs.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 17% to RMB10,737 million for the second quarter of 2016 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 13% to RMB11,319 million.

Management Discussion and Analysis

OTHER FINANCIAL INFORMATION

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2016	2015	2016	2016	2015
	(RMB in millions, unless specified)				
EBITDA (a)	29,910	20,203	15,581	14,329	10,258
Adjusted EBITDA (a)	31,405	21,405	16,401	15,004	10,899
Adjusted EBITDA margin (b)	46%	47%	46%	47%	47%
Interest expense	971	728	494	477	399
Net cash (c)	24,037	21,663	24,037	27,429	21,663
Capital expenditures (d)	5,610	4,173	1,505	4,105	2,841

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licenses).

Management Discussion and Analysis

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

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June 2016	30 June 2015	30 June 2016	31 March 2016	30 June 2015
	(RMB in millions, unless specified)				
Operating profit	27,727	19,408	14,329	13,398	10,036
Adjustments:					
Interest income	(1,329)	(1,119)	(626)	(703)	(598)
Other (gains)/losses, net	(1,417)	(1,023)	(911)	(506)	(612)
Depreciation of fixed assets and investment properties	1,776	1,552	907	869	770
Amortisation of intangible assets	3,153	1,385	1,882	1,271	662
EBITDA	29,910	20,203	15,581	14,329	10,258
Equity-settled share-based compensation	1,495	1,202	820	675	641
Adjusted EBITDA	31,405	21,405	16,401	15,004	10,899

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this interim report. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the 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 impact 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 first half of 2016 and 2015, the second quarter of 2016 and 2015, and the first quarter of 2016 to the nearest measures prepared in accordance with IFRS:

Unaudited six months ended 30 June 2016							
As reported	Adjustments					Non-GAAP	
	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/ losses from investee companies		Amortisation of intangible assets		Impairment provision
		(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)							
Operating profit	27,727	1,495	74	(3,718)	96	2,497	28,171
Profit for the period	20,148	1,880	74	(4,037)	684	2,881	21,630
Profit attributable to equity holders	19,920	1,852	74	(4,033)	665	2,873	21,351
EPS (RMB per share)							
– basic	2.128						2.280
– diluted	2.102						2.253
Operating margin	41%						42%
Net margin	30%						32%

Unaudited six months ended 30 June 2015							
As reported	Adjustments					Non-GAAP	
	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/ losses from investee companies		Amortisation of intangible assets		Impairment provision
		(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)							
Operating profit	19,408	1,202	50	(2,326)	106	1,275	19,715
Profit for the period	14,326	1,364	50	(2,238)	598	1,285	15,385
Profit attributable to equity holders	14,197	1,323	48	(2,238)	578	1,269	15,177
EPS (RMB per share)							
– basic	1.528						1.634
– diluted	1.512						1.616
Operating margin	42%						43%
Net margin	31%						34%

Management Discussion and Analysis

Unaudited three months ended 30 June 2016

	Adjustments						Non-GAAP
	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provision		
As reported	(a)	(b)	(c)	(d)			
(RMB in millions, unless specified)							
Operating profit	14,329	820	42	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,014	42	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	995	42	(3,247)	317	2,475	11,319
EPS (RMB per share)							
– basic	1.146						1.208
– diluted	1.133						1.194
Operating margin	40%						41%
Net margin	30%						32%

Unaudited three months ended 31 March 2016

	Adjustments						Non-GAAP
	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provision		
As reported	(a)	(b)	(c)	(d)			
(RMB in millions, unless specified)							
Operating profit	13,398	675	32	(728)	47	60	13,484
Profit for the period	9,268	866	32	(786)	356	398	10,134
Profit attributable to equity holders	9,183	857	32	(786)	348	398	10,032
EPS (RMB per share)							
– basic	0.981						1.072
– diluted	0.970						1.059
Operating margin	42%						42%
Net margin	29%						32%

Management Discussion and Analysis

Unaudited three months ended 30 June 2015

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provision	
		(a)	(b)	(c)	(d)		
		(RMB in millions, unless specified)					
Operating profit	10,036	641	18	(1,487)	56	1,052	10,316
Profit for the period	7,396	720	18	(1,399)	300	1,057	8,092
Profit attributable to equity holders	7,314	699	17	(1,399)	287	1,057	7,975
EPS (RMB per share)							
– basic	0.787						0.858
– diluted	0.778						0.849
Operating margin	43%						44%
Net margin	32%						35%

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 on options we own in investee companies.
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax.
- (d) Impairment provision for associates, available-for-sale financial assets, and intangible assets arising from acquisitions.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Our net cash positions as at 30 June 2016 and 31 March 2016 are as follows:

	Unaudited 30 June 2016	Unaudited 31 March 2016
	(RMB in millions)	
Cash and cash equivalents	64,206	56,607
Term deposits	44,808	42,752
	109,014	99,359
Borrowings	(43,110)	(31,175)
Notes payable	(41,867)	(40,755)
Net cash	24,037	27,429

As at 30 June 2016, the Group had net cash of RMB24,037 million. The sequential decrease in net cash was mainly due to payment of our final dividend for the year ended 31 December 2015. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB80 billion as at 30 June 2016.

As at 30 June 2016, RMB42,349 million of our financial resources (cash and cash equivalents and term deposits) were denominated in non-RMB currencies.

For the second quarter of 2016, the Group had free cash flow of RMB9,748 million. This was a result of net cash flow generated from operating activities of RMB11,933 million, offset by payments for capital expenditure of RMB2,185 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 21 to 66, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2016 and the related consolidated income statement, the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 ‘Interim Financial Reporting’. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 August 2016

Consolidated Income Statement

For the three and six months ended 30 June 2016

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016 RMB'Million	2015 RMB'Million	2016 RMB'Million	2015 RMB'Million
Revenues					
Value-added services		25,680	18,428	50,644	37,054
Online advertising		6,532	4,073	11,233	6,797
Others		3,479	928	5,809	1,977
		35,691	23,429	67,686	45,828
Cost of revenues	8	(15,235)	(8,991)	(28,641)	(17,956)
Gross profit		20,456	14,438	39,045	27,872
Interest income		626	598	1,329	1,119
Other gains, net	7	911	612	1,417	1,023
Selling and marketing expenses	8	(2,365)	(1,601)	(4,397)	(2,927)
General and administrative expenses	8	(5,299)	(4,011)	(9,667)	(7,679)
Operating profit		14,329	10,036	27,727	19,408
Finance costs, net	9	(377)	(341)	(868)	(774)
Share of losses of associates and joint ventures		(292)	(452)	(1,381)	(762)
Profit before income tax		13,660	9,243	25,478	17,872
Income tax expense	10	(2,780)	(1,847)	(5,330)	(3,546)
Profit for the period		10,880	7,396	20,148	14,326
Attributable to:					
Equity holders of the Company		10,737	7,314	19,920	14,197
Non-controlling interests		143	82	228	129
		10,880	7,396	20,148	14,326
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
– basic	11	1.146	0.787	2.128	1.528
– diluted	11	1.133	0.778	2.102	1.512

The accompanying notes on pages 30 to 66 form an integral part of this interim financial information.

Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2016

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	10,880	7,396	20,148	14,326
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive income of associates	277	(168)	285	(98)
Net gains from changes in fair value of available-for-sale financial assets	4,979	4,805	3,326	6,569
Transfer to profit or loss upon disposal of available-for-sale financial assets	79	(10)	79	(10)
Currency translation differences	1,308	(367)	1,094	(180)
Other fair value losses	(182)	–	(321)	–
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Other fair value losses	(66)	–	(328)	–
	6,395	4,260	4,135	6,281
Total comprehensive income for the period	17,275	11,656	24,283	20,607
Attributable to:				
Equity holders of the Company	17,116	11,594	24,036	20,492
Non-controlling interests	159	62	247	115
	17,275	11,656	24,283	20,607

The accompanying notes on pages 30 to 66 form an integral part of this interim financial information.

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	Unaudited 30 June 2016 RMB'Million	Audited 31 December 2015 RMB'Million
ASSETS			
Non-current assets			
Fixed assets	13	11,469	9,973
Construction in progress	13	4,066	4,248
Investment properties	13	710	292
Land use rights	13	4,066	2,293
Intangible assets	13	14,190	13,439
Investments in associates	14	64,092	60,171
Investments in redeemable preference shares of associates	14	8,203	6,230
Investments in joint ventures		573	544
Available-for-sale financial assets	15	54,827	44,339
Prepayments, deposits and other assets	17	7,049	5,480
Deferred income tax assets	26	4,739	757
Term deposits		9,034	3,674
		183,018	151,440
Current assets			
Inventories		216	222
Accounts receivable	16	8,810	7,061
Prepayments, deposits and other assets	17	11,908	11,397
Other financial assets	18	1,537	1,198
Term deposits		35,774	37,331
Restricted cash	22	125,490	54,731
Cash and cash equivalents		64,206	43,438
		247,941	155,378
Total assets		430,959	306,818

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	Unaudited 30 June 2016 RMB'Million	Audited 31 December 2015 RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	19	–	–
Share premium		14,619	12,167
Shares held for share award schemes		(2,425)	(1,817)
Other reserves		12,884	9,673
Retained earnings		116,192	100,012
		<u>141,270</u>	<u>120,035</u>
Non-controlling interests		<u>2,851</u>	<u>2,065</u>
Total equity		<u>144,121</u>	<u>122,100</u>
LIABILITIES			
Non-current liabilities			
Borrowings	24	33,030	12,922
Notes payable	25	34,585	37,092
Long-term payables	23	3,936	3,626
Deferred income tax liabilities	26	3,920	3,668
Deferred revenue		2,365	3,004
		<u>77,836</u>	<u>60,312</u>

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	Unaudited 30 June 2016 RMB'Million	Audited 31 December 2015 RMB'Million
Current liabilities			
Accounts payable	21	21,168	15,700
Other payables and accruals	22	138,759	70,199
Borrowings	24	10,080	11,429
Notes payable	25	7,282	3,886
Current income tax liabilities		3,555	1,608
Other tax liabilities		384	462
Deferred revenue		27,774	21,122
		209,002	124,406
Total liabilities		286,838	184,718
Total equity and liabilities		430,959	306,818

The accompanying notes on pages 30 to 66 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 2016

	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 1 January 2016	-	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100
Comprehensive income								
Profit for the period	-	-	-	-	19,920	19,920	228	20,148
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	-	-	-	285	-	285	-	285
- net gains from changes in fair value of available-for-sale financial assets	-	-	-	3,326	-	3,326	-	3,326
- transfer to profit or loss upon disposal of available-for-sale financial assets	-	-	-	79	-	79	-	79
- currency translation differences	-	-	-	1,075	-	1,075	19	1,094
- other fair value losses	-	-	-	(649)	-	(649)	-	(649)
Total comprehensive income for the period	-	-	-	4,116	19,920	24,036	247	24,283
Transactions with owners								
Capital injection	-	-	-	-	-	-	233	233
Employee share option schemes:								
- value of employee services	-	126	-	-	-	126	-	126
- proceeds from shares issued	-	120	-	-	-	120	-	120
Employee share award schemes:								
- value of employee services	-	1,163	-	181	-	1,344	27	1,371
- shares withheld for share award schemes	-	-	(792)	-	-	(792)	-	(792)
- vesting of awarded shares	-	(184)	184	-	-	-	-	-
Tax benefit from share-based payments of a subsidiary	-	-	-	730	-	730	-	730
Profit appropriations to statutory reserves	-	-	-	24	(24)	-	-	-
Dividends (Note 12)	-	-	-	-	(3,716)	(3,716)	(523)	(4,239)
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	1,227	-	(1,448)	-	(221)	178	(43)
Non-controlling interests arising from disposal of a subsidiary	-	-	-	-	-	-	(2)	(2)
Disposal of equity interests in non-wholly owned subsidiaries	-	-	-	109	-	109	125	234
Transfer of equity interests of subsidiaries to non-controlling interests	-	-	-	(501)	-	(501)	501	-
Total transactions with owners recognised directly in equity for the period	-	2,452	(608)	(905)	(3,740)	(2,801)	539	(2,262)
Balance at 30 June 2016	-	14,619	(2,425)	12,884	116,192	141,270	2,851	144,121

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	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 2015	–	5,131	(1,309)	2,129	74,062	80,013	2,111	82,124
Comprehensive income								
Profit for the period	–	–	–	–	14,197	14,197	129	14,326
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates	–	–	–	(98)	–	(98)	–	(98)
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	6,569	–	6,569	–	6,569
– transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(10)	–	(10)	–	(10)
– currency translation differences	–	–	–	(166)	–	(166)	(14)	(180)
Total comprehensive income for the period	–	–	–	6,295	14,197	20,492	115	20,607
Transactions with owners								
Capital injection	–	–	–	–	–	–	54	54
Employee share option schemes:								
– value of employee services	–	96	–	81	–	177	12	189
– proceeds from shares issued	–	88	–	–	–	88	–	88
Employee share award schemes:								
– value of employee services	–	856	–	128	–	984	29	1,013
– shares withheld for share award schemes	–	–	(112)	–	–	(112)	–	(112)
– vesting of awarded shares	–	(16)	16	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	5	(5)	–	–	–
Dividends	–	–	–	–	(2,640)	(2,640)	(151)	(2,791)
Non-controlling interests arising from business combination	–	–	–	–	–	–	247	247
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	26	–	26	(52)	(26)
Non-controlling interests arising from disposal of a subsidiary	–	–	–	–	–	–	26	26
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(231)	–	(231)	231	–
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	–	–	–	(1,195)	–	(1,195)	–	(1,195)
Total transactions with owners recognised directly in equity for the period	–	1,024	(96)	(1,186)	(2,645)	(2,903)	396	(2,507)
Balance at 30 June 2015	–	6,155	(1,405)	7,238	85,614	97,602	2,622	100,224

The accompanying notes on pages 30 to 66 form an integral part of this interim financial information.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
Cash flows from operating activities		
Cash generated from operations	34,978	20,077
Income tax paid	(6,129)	(2,782)
	28,849	17,295
Cash flows from investing activities		
Payments for business combinations, net of cash acquired	(113)	(1,340)
Net inflows/(outflows) of cash in respect of the disposal of subsidiaries	216	(51)
Purchase of fixed assets, construction in progress and investment properties	(3,357)	(2,316)
Proceeds from disposals of fixed assets	–	34
Payments for acquisition of investments in associates	(3,869)	(6,610)
Payments for acquisition of investments in redeemable preference shares of associates	(1,645)	(1,388)
Payments for acquisition of investments in joint ventures	(33)	(498)
Purchase/prepayment of intangible assets	(3,688)	(1,744)
Proceeds from disposals of intangible assets	–	2
Purchase/prepayment of land use rights	(1,506)	(1,128)
Payments for available-for-sale financial assets	(6,804)	(2,812)
Proceeds from disposals of investments in associates	193	752
Proceeds from disposals of investments in redeemable preference shares of associates	32	–
Proceeds from disposals of available-for-sale financial assets	–	48
Net inflows from loans to investees and others	1,468	–
Receipt from maturity of term deposits with initial terms of over three months	21,253	26,109
Placement of term deposits with initial terms over three months	(25,056)	(31,428)
Interest received	1,078	1,077
Dividends received	139	273
	(21,692)	(21,020)
Net cash flows used in investing activities		

Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	–	1,226
Repayment of short-term borrowings	(977)	–
Proceeds from long-term borrowings	26,218	304
Repayment of long-term borrowings	(7,225)	(1,564)
Repayment of convertible bond	(494)	–
Net proceeds from issuance of notes payable	–	12,194
Proceeds from issuance of ordinary shares	120	88
Shares withheld for share award schemes	(792)	(112)
Proceeds from capital injection from non-controlling interests	242	54
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	(149)	–
Dividends paid to the Company's shareholders	(3,716)	(2,640)
Dividends paid to non-controlling interests	(523)	(151)
	12,704	9,399
Net cash flows generated from financing activities	12,704	9,399
Net increase in cash and cash equivalents	19,861	5,674
Cash and cash equivalents at beginning of the period	43,438	42,713
Exchange gains/(losses) on cash and cash equivalents	907	(116)
Cash and cash equivalents at end of the period	64,206	48,271
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	38,640	15,448
Term deposits and highly liquid investments with initial terms within three months	25,566	32,823
	64,206	48,271

The accompanying notes on pages 30 to 66 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”).

This condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2016, the related consolidated income statement, the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (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 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2015 annual report of the Company dated 17 March 2016 (the “2015 Financial Statements”).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2015 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, 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 profits.

Amendments to IFRS effective for the financial year ending 31 December 2016 do not have a material impact on the Group’s Interim Financial Information.

Notes to the Interim Financial Information

4 ESTIMATES

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

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2015 Financial Statements.

5 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 2015 Financial Statements.

There were no changes in any risk management policies during the six months ended 30 June 2016.

The functional currency of the Company and majority of its overseas subsidiaries is United States Dollars ("USD"), whereas functional currency of the subsidiaries which operate in the PRC is RMB. As at 30 June 2016, the Group's major monetary assets and liabilities which are exposed to foreign exchange risk, are listed below:

RMB'Million	Denomination currency	
	USD	Non-USD
As at 30 June 2016		
Monetary assets, current	5,227	346
Monetary liabilities, current	(3,712)	(53)
Monetary liabilities, non-current	–	(3,575)
	1,515	(3,282)
As at 31 December 2015		
Monetary assets, current	3,169	286
Monetary liabilities, current	(2,186)	(37)
Monetary liabilities, non-current	–	(3,509)
	983	(3,260)

Notes to the Interim Financial Information

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

During the three and six months ended 30 June 2016, the Group reported exchange gains of RMB117 million and RMB103 million, respectively (for the three and six months ended 30 June 2015: exchange gains of RMB58 million and exchange losses of RMB46 million, respectively) (Note 9). Such gains or losses were recorded in “Finance costs, net” in the consolidated income statement for the three and six months ended 30 June 2016.

(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 referred to the 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 total debts to adjusted earnings before interest, tax, depreciation and amortisation (“EBITDA”) (Note) ratio, being the measure of the Group’s ability to pay off all debts. The total debts/adjusted EBITDA ratio calculated by dividing the total debts by adjusted EBITDA is as follows:

	Unaudited 30 June 2016 RMB’Million	Audited 31 December 2015 RMB’Million
Borrowings	43,110	24,351
Notes payable	41,867	40,978
Total debts	84,977	65,329
Adjusted EBITDA for the twelve months ended 30 June 2016/31 December 2015 (Note)	55,805	45,805
Total debts/Adjusted EBITDA Ratio	1.52	1.43

Note:

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

Notes to the Interim Financial Information

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2016 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 2016				
Available-for-sale financial assets	18,057	26	36,744	54,827
Other financial assets	–	417	1,120	1,537
Other financial liabilities	–	(329)	–	(329)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2015				
Available-for-sale financial assets	9,435	7,419	27,485	44,339
Other financial assets	–	736	462	1,198
Convertible bonds	–	–	(588)	(588)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to the Interim Financial Information

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

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.

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 forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; 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 2016, an available-for-sale financial asset was transferred from level 2 to level 1 of fair value hierarchy classifications.

Notes to the Interim Financial Information

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2016 and 2015:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
Financial assets		
Opening balance	27,947	6,276
Additions	5,128	5,458
Changes in fair value	4,465	4,009
Impairment provision	(371)	–
Currency translation differences	695	(15)
	<u>37,864</u>	<u>15,728</u>
Closing balance		

Valuation process of the Group (Level 3)

The Group has a team of personnel who manages the valuation logistics of level 3 instruments for financial reporting purposes. The team manages the valuation logistics at least once every quarter, which coincide with the Group's quarterly reporting dates. External valuation experts may also be involved 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, comparable transactions approaches, 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 (WACC), recent market transactions, discount for lack of marketability, and other exposure etc.

Notes to the Interim Financial Information

6 SEGMENT INFORMATION

The chief operating decision-makers mainly include the 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 following reportable segments for the three and six months ended 30 June 2016 and 2015:

- VAS;
- Online advertising; and
- Others

“Others” segment of the Group primarily comprises payment related services, cloud services and others.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit/(losses) 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 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 2016 and 2015. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

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

Notes to the Interim Financial Information

6 SEGMENT INFORMATION (continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the three and six months ended 30 June 2016 and 2015 is as follows:

	Unaudited			
	Three months ended 30 June 2016			
	VAS	Online	Others	Total
RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>25,680</u>	<u>6,532</u>	<u>3,479</u>	<u>35,691</u>
Gross profit	<u>17,130</u>	<u>2,957</u>	<u>369</u>	<u>20,456</u>
Depreciation	450	49	121	620
Amortisation	387	1,384	–	1,771
Share of losses of associates and joint ventures	<u>(39)</u>	<u>(18)</u>	<u>(235)</u>	<u>(292)</u>

	Unaudited			
	Three months ended 30 June 2015			
	VAS	Online	Others	Total
RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>18,428</u>	<u>4,073</u>	<u>928</u>	<u>23,429</u>
Gross profit	<u>12,207</u>	<u>2,112</u>	<u>119</u>	<u>14,438</u>
Depreciation	491	42	9	542
Amortisation	116	446	–	562
Share of (losses)/profits of associates and joint ventures	<u>(60)</u>	<u>27</u>	<u>(419)</u>	<u>(452)</u>

Notes to the Interim Financial Information

6 SEGMENT INFORMATION (continued)

	Unaudited			
	Six months ended 30 June 2016			
	VAS	Online	Others	Total
RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	50,644	11,233	5,809	67,686
Gross profit	33,504	5,009	532	39,045
Depreciation	897	96	229	1,222
Amortisation	876	2,056	–	2,932
Share of losses of associates and joint ventures	(335)	(4)	(1,042)	(1,381)

	Unaudited			
	Six months ended 30 June 2015			
	VAS	Online	Others	Total
RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	37,054	6,797	1,977	45,828
Gross profit	24,379	3,174	319	27,872
Depreciation	990	85	19	1,094
Amortisation	215	965	–	1,180
Share of (losses)/profits of associates and joint ventures	(128)	19	(653)	(762)

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

As at 30 June 2016, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other areas were RMB84,401 million (31 December 2015: RMB77,704 million) and RMB19,989 million (31 December 2015: RMB16,897 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the three and six months ended 30 June 2016 and 2015.

Notes to the Interim Financial Information

7 OTHER GAINS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Impairment provision for investee companies and intangible assets from acquisition (Note (a))	(2,437)	(1,052)	(2,497)	(1,275)
Gains on disposals/deemed disposals of investees and businesses (Note (b))	2,327	1,487	3,060	2,326
Fair value gains on other financial instruments	663	–	658	–
Subsidies and tax rebates	154	56	286	65
Dividend income	33	173	51	214
Donation to Tencent Charity Funds	–	–	(350)	(250)
Others	171	(52)	209	(57)
	911	612	1,417	1,023

Note:

- (a) The impairment provision for investee companies and intangible assets from acquisition recognised in “Other gains, net” was mainly set up against the carrying amounts of the following:
- investments in associates and redeemable preference shares of associates, amounting to RMB1,741 million for the three months ended 30 June 2016 (for the three months ended 30 June 2015: RMB531 million) and RMB1,801 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RMB606 million); and
 - available-for-sale financial assets amounting to RMB690 million for the three and six months ended 30 June 2016 (for the three and six months ended 30 June 2015: RMB521 million).
- (b) The disposal gains/deemed disposal gains recognised in “Other gains, net” comprised the following:
- net gains arising from deemed disposals of a number of investments in associates of RMB1,579 million for the three months ended 30 June 2016 and RMB1,926 million for the six months ended 30 June 2016 (Note 14(a)), as a result of new equity interests issued by these associates for additional financing or investment considerations. The Group’s equity interests in these associates were hence diluted. These associates are principally engaged in eCommerce, entertainment and other Internet-related business; and
 - net gains of RMB748 million for the three months ended 30 June 2016 and RMB1,134 million for the six months ended 30 June 2016 arising from a number of investees as a result of disposal and re-designation of investments.

Notes to the Interim Financial Information

8 EXPENSES BY NATURE

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (Note (a))	5,426	4,544	10,205	8,602
Content costs and agency fees (excluding amortisation of intangible assets)	4,945	3,582	10,220	7,255
Bandwidth and server custody fees	1,869	1,333	3,572	2,509
Channel costs	1,961	955	3,548	1,944
Promotion and advertising expenses	1,701	1,080	3,117	1,944
Amortisation of intangible assets (Note (b) and Note 13)	1,882	662	3,153	1,385
Depreciation of fixed assets (Note (a) and Note 13)	903	769	1,771	1,549
Operating lease rentals in respect of office buildings	275	223	518	436
Travelling and entertainment expenses	176	131	341	270

Note:

(a) Included the expenses incurred for research and development as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses	2,116	1,643	3,976	3,288
Depreciation of fixed assets	209	175	405	346
Others	421	254	698	465
Research and development expenses	2,746	2,072	5,079	4,099

No development expenses had been capitalised for the three and six months ended 30 June 2016 and 2015.

(b) Included amortisation charge of intangible assets in respect of game licenses and licensed online contents.

Notes to the Interim Financial Information

9 FINANCE COSTS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Interest and related expenses	494	399	971	728
Exchange (gains)/losses	(117)	(58)	(103)	46
	<u>377</u>	<u>341</u>	<u>868</u>	<u>774</u>

Interest and related expenses mainly arose from the borrowings and notes payable disclosed in Notes 24 and 25, respectively.

10 TAX EXPENSE

(a) Income tax expense

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and six months ended 30 June 2016 and 2015.

- (ii) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three and six months ended 30 June 2016 and 2015.

- (iii) PRC corporate income tax

Corporate income tax ("CIT") provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the three and six months ended 30 June 2016 and 2015, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the three and six months ended 30 June 2016 and 2015.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the three and six months ended 30 June 2016 and 2015 according to the applicable CIT Law.

Notes to the Interim Financial Information

10 TAX EXPENSE (continued)

(a) Income tax expense (continued)

(iii) PRC corporate income tax (continued)

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 CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operation or from the first year of profitable operation, after offsetting tax losses generated in prior years.

(iv) Corporate income tax in other countries

CIT provision has been provided for the three and six months ended 30 June 2016 and 2015 for the entities within the Group which were incorporated in the United States, Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 36%.

(v) Withholding tax

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. 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.

Similar tax regulations and appropriate withholding taxes are also applicable to certain countries and regions.

The income tax expense of the Group for the three and six months ended 30 June 2016 and 2015 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current tax	2,902	1,885	5,262	3,670
Deferred income tax (Note 26)	(122)	(38)	68	(124)
	<u>2,780</u>	<u>1,847</u>	<u>5,330</u>	<u>3,546</u>

Notes to the Interim Financial Information

10 TAX EXPENSE (continued)

(a) Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three and six months ended 30 June 2016 and 2015, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments. The difference is analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit before income tax	13,660	9,243	25,478	17,872
Share of losses of associates and joint ventures	292	452	1,381	762
	<u>13,952</u>	<u>9,695</u>	<u>26,859</u>	<u>18,634</u>
Tax calculated at a tax rate of 25%	3,488	2,424	6,715	4,659
Effects of different tax rates applicable to different subsidiaries of the Group	(1,357)	(621)	(2,203)	(1,391)
Effects of tax holiday on assessable profits of certain subsidiaries	(136)	(139)	(246)	(215)
Income not subject to tax	(2)	(5)	(2)	(11)
Expenses not deductible for tax purposes	257	107	429	288
Withholding tax on earnings expected to be remitted by PRC subsidiaries	400	–	400	–
Unrecognised deferred income tax assets	221	21	328	156
Others	(91)	60	(91)	60
	<u>2,780</u>	<u>1,847</u>	<u>5,330</u>	<u>3,546</u>
Income tax expense				

Notes to the Interim Financial Information

10 TAX EXPENSE (continued)

(b) Value-added tax, business tax and related 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%	Sales value of goods sold and services fee income, offset by VAT on purchases
Business tax (“BT”) (applicable for the period prior to May 2016)	5%	Services fee income
Construction fee for cultural undertakings	3%	Advertising income
City construction tax	7%	Net VAT and BT payable amount
Educational surcharge	5%	Net VAT and BT payable amount

11 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	
	2016	2015	2016	2015
Profit attributable to equity holders of the Company (RMB’Million)	<u>10,737</u>	<u>7,314</u>	<u>19,920</u>	<u>14,197</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,369</u>	<u>9,292</u>	<u>9,363</u>	<u>9,289</u>
Basic EPS (RMB per share)	<u>1.146</u>	<u>0.787</u>	<u>2.128</u>	<u>1.528</u>

(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).

Notes to the Interim Financial Information

11 EARNINGS PER SHARE (continued)

(b) Diluted (continued)

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates, and the convertible bonds of the subsidiaries should also have potential dilutive effect on the EPS. During the three and six months ended 30 June 2016 and 2015, these share options and restricted shares and convertible bonds had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Profit attributable to equity holders of the Company (RMB' Million)	<u>10,737</u>	<u>7,314</u>	<u>19,920</u>	<u>14,197</u>
Weighted average number of ordinary shares in issue (million shares)	9,369	9,292	9,363	9,289
Adjustments for share options and awarded shares (million shares)	<u>111</u>	<u>103</u>	<u>112</u>	<u>102</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,480</u>	<u>9,395</u>	<u>9,475</u>	<u>9,391</u>
Diluted EPS (RMB per share)	<u>1.133</u>	<u>0.778</u>	<u>2.102</u>	<u>1.512</u>

12 DIVIDENDS

A final dividend in respect of the year ended 31 December 2015 of HKD0.47 per share (2014: HKD0.36 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2016 and approved by the shareholders at the annual general meeting held on 18 May 2016. Such dividend amounting to RMB3,716 million (final dividend for 2014: RMB2,640 million), was paid/payable as at 30 June 2016.

The Board did not declare any interim dividend for the six months ended 30 June 2016 and 2015.

Notes to the Interim Financial Information

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

	Unaudited				
	Fixed assets	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 2016	9,973	4,248	292	2,293	13,439
Additions	2,129	1,355	–	1,818	3,875
Transfers	1,114	(1,537)	423	–	–
Disposals	(25)	–	–	–	(47)
Depreciation/amortisation	(1,771)	–	(5)	(45)	(3,153)
Impairment	(2)	–	–	–	(8)
Currency translation differences	51	–	–	–	84
Net book amount at 30 June 2016	11,469	4,066	710	4,066	14,190
Net book amount at 1 January 2015	7,918	3,830	268	751	9,304
Business combinations	6	–	–	–	1,200
Additions	1,253	1,117	–	1,548	1,401
Transfers	942	(942)	–	–	–
Disposals	(25)	–	–	–	(40)
Depreciation/amortisation	(1,549)	–	(3)	(13)	(1,385)
Impairment	–	–	–	–	(174)
Currency translation differences	(17)	–	–	–	(21)
Net book amount at 30 June 2015	8,528	4,005	265	2,286	10,285

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.

During the six months ended 30 June 2016, the Group recognised impairment losses of RMB2 million and RMB8 million for fixed assets and intangible assets, respectively. Other than that, there was no indication of impairment for fixed assets, construction in progress, investment properties, land use rights and intangible assets during the six months ended 30 June 2016.

Notes to the Interim Financial Information

14 INTERESTS IN ASSOCIATES

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Investments in associates (Note (a))		
– Listed shares	35,926	36,040
– Unlisted shares	28,166	24,131
	64,092	60,171
Investments in redeemable preference shares of associates (Note (b))	8,203	6,230
	72,295	66,401

Note:

(a) Investments in associates

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
At beginning of period	60,171	51,131
Additions (Note (i))	3,971	6,185
Deemed disposal gains (Note 7(b))	1,926	1,278
Share of losses of associates	(1,385)	(767)
Share of other comprehensive income of associates	285	(102)
Dividends from associates	(87)	(55)
Disposals and transfers	(211)	(3,560)
Impairment provision (Note (ii))	(1,678)	(606)
Currency translation differences	1,100	(58)
At end of period	64,092	53,446

Notes to the Interim Financial Information

14 INTERESTS IN ASSOCIATES (continued)

Note: (continued)

(a) Investments in associates (continued)

Note:

- (i) The Group acquired interests in associates, made additional investments in existing associates and redesignated from available-for-sale financial assets with an aggregate amount of RMB3,971 million during the six months ended 30 June 2016.
- (ii) During the six months ended 30 June 2016, the Group made an aggregate impairment provision of RMB1,678 million (for the six months ended 30 June 2015: RMB606 million) against the carrying amounts of its investments in certain associates, based on the results of impairment assessment performed on their carrying amounts against the respective recoverable amounts.

Management has assessed the level of influence that the Group exercises on certain associates, with a total carrying amount of RMB33,736 million as at 30 June 2016 (31 December 2015: RMB31,207 million), and determined that it has significant influence thereon through the board representation or other arrangements made, even though the respective shareholding is below 20%. Consequently, these investments have been classified as associates.

(b) Investments in redeemable preference shares of associates

The Group held certain redeemable preference shares of the associates. The redemption prices of the relevant shares are agreed at not less than their respective original subscription prices.

The Group accounts for different components of redeemable preference shares of associates separately. The host component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the conversion component, and is subsequently measured at amortised cost. For financial assets/liabilities at fair value through profit or loss including derivative, they are initially recognised at fair value and subsequently carried at fair value with changes in fair value recognised in the consolidated income statement.

The Group acquired several redeemable preference shares of the associates or made additional investments in existing redeemable preference shares of associates for an aggregate consideration of RMB1,970 million during the six months ended 30 June 2016.

During the six months ended 30 June 2016, the Group made an impairment provision of approximately RMB123 million (for six months ended 30 June 2015: Nil) against the carrying amounts of its investments in redeemable preference shares of certain associates based on the results of impairment assessment performed with reference to the business performances and recoverable amounts of these investments.

Notes to the Interim Financial Information

14 INTERESTS IN ASSOCIATES (continued)

Note: (continued)

(c) Transactions with associates

During the three and six months ended 30 June 2016, the Group had transactions related to online traffic and other online services with certain associates including JD.com, under but not limited to, certain co-operation arrangements.

The revenues recorded by the Group from the aforesaid co-operation arrangements during the three and six months ended 30 June 2016 and 2015 were considered to be insignificant.

The Group was also entitled to certain call options/warrants and conversion options of the Group's investments in certain associates.

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Listed equity interests	18,057	9,435
Unlisted equity investments	36,601	34,879
Other unlisted investments	169	25
	54,827	44,339

Notes to the Interim Financial Information

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Movement of available-for-sale financial assets is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
At beginning of period	44,339	13,277
Additions (Note (a) and (b))	7,212	6,846
Changes in fair value (Note (c))	3,063	6,796
Impairment provision (Note (d))	(690)	(521)
Currency translation differences	903	(28)
	54,827	26,370
At end of period	54,827	26,370

Note:

- (a) During the six months ended 30 June 2016, the Group acquired additional equity interests of an existing available-for-sale financial asset, which is an online transportation network company, at a cash consideration of USD330 million (equivalent to approximately RMB2,155 million).
- (b) The Group also acquired certain interests or made additional investments in certain existing interests or redesignated from investments in associates with an aggregate amount of RMB5,057 million during the six months ended 30 June 2016.
- (c) Fair value gains recognised for the available-for-sale financial assets during the six months ended 30 June 2016 of RMB3,063 million (during the six months ended 30 June 2015: RMB6,796 million) were recognised in the other comprehensive income.
- (d) During the six months ended 30 June 2016, the Group made an impairment provision of RMB690 million (for the six months ended 30 June 2015: RMB521 million) against the carrying amounts of certain available-for-sale financial assets, with reference to their respective market value, business performance and assessed recoverable amounts.

As at 30 June 2016, there were certain call or conversion options embedded in available-for-sale financial assets. The directors of the Company considered that the fair values of such options were insignificant to the Group, accordingly, the Group did not separately recognise these options in the Interim Financial Information.

Notes to the Interim Financial Information

16 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
0 - 30 days	4,066	3,616
31 - 60 days	2,557	2,209
61 - 90 days	1,215	798
Over 90 days	972	438
	8,810	7,061

Accounts receivable were mainly denominated in RMB.

Receivable balances as at 30 June 2016 and 31 December 2015 mainly represented amounts due from online advertising customers, telecommunication operators, and third party online/mobile apps platforms.

Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted with a credit period of 90 days after full execution of the contracted advertisement orders. Telecommunication operators and third party platforms usually settle the amounts due by them within a period of 30 to 120 days and 60 days, respectively.

As at 30 June 2016, insignificant amounts of accounts receivable were past due and related impairment provision was recognised after assessment on the financial condition and credit quality with reference to past history.

As at 30 June 2016, the directors of the Company considered that the carrying amounts of the receivable balances approximated their fair values.

Notes to the Interim Financial Information

17 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for licensed contents	2,834	857
Prepayments for land use rights	1,158	2,242
Running royalty fees for online games	559	357
Loans to investees and investees' shareholders (Note)	1,054	999
Others	1,444	1,025
	7,049	5,480
Included in current assets:		
Running royalty fees for online games	2,388	2,252
Prepayments and prepaid expenses	3,976	3,275
Loans to investees and investees' shareholders (Note)	786	2,507
Interest receivables	1,643	1,392
Refundable value-added tax	561	254
Rental deposits and other deposits	179	167
Others	2,375	1,550
	11,908	11,397
	18,957	16,877

Note:

As at 30 June 2016, the amounts represented loans to investees and investees' shareholders. These balances are repayable in the period of three to ten years (included in non-current assets), or within one year (included in current assets). Majority of these balances are interest-bearing at rates of 0.28% to 8.00% per annum (31 December 2015: 0.28% to 10.00% per annum).

The directors of the Company considered that the carrying amounts of deposits and other assets approximated their respective fair values as at 30 June 2016. Deposits and other assets (excluding financial instrument associated with investee companies) were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the counterparties and credit history.

Notes to the Interim Financial Information

18 OTHER FINANCIAL ASSETS

As at 30 June 2016, other financial assets represented call options/warrants held by the Group which entitled it to acquire additional equity interests in certain investee companies of the Group. They were presented at their fair value.

19 SHARE CAPITAL

As at 30 June 2016 and 31 December 2015, the total authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

As at 30 June 2016, the total number of issued ordinary shares of the Company was 9,408,830,004 shares (31 December 2015: 9,403,923,992 shares). They were all fully paid up.

Movement of number of ordinary shares	Unaudited	
	Six months ended 30 June	
	2016	2015
At beginning of period	9,403,923,992	9,370,678,830
Issuance of shares under employee share option schemes	4,906,012	6,773,550
At end of period	9,408,830,004	9,377,452,380

20 SHARE-BASED PAYMENTS

(a) Share option schemes

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

The Pre-IPO Option Scheme and the Post-IPO Option Scheme I expired on 31 December 2011 and 23 March 2014 respectively.

In respect of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, the Board may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The 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 7-year or 10-year period after the date of grant of option.

Notes to the Interim Financial Information

20 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2016	HKD80.59	25,697,305	HKD31.70	5,000,000	30,697,305
Granted	HKD158.10	10,425,000	–	–	10,425,000
Exercised	HKD26.62	(2,406,012)	HKD31.70	(2,500,000)	(4,906,012)
Lapsed	HKD26.08	(48,800)	–	–	(48,800)
At 30 June 2016	HKD108.53	33,667,493	HKD31.70	2,500,000	36,167,493
Exercisable as at 30 June 2016	HKD75.13	10,620,554	–	–	10,620,554
At 1 January 2015	HKD57.36	36,432,000	HKD31.70	5,000,000	41,432,000
Granted	HKD149.80	525,000	–	–	525,000
Exercised	HKD16.48	(6,773,550)	–	–	(6,773,550)
Lapsed	HKD25.14	(212,500)	–	–	(212,500)
At 30 June 2015	HKD68.45	29,970,950	HKD31.70	5,000,000	34,970,950
Exercisable as at 30 June 2015	HKD48.82	8,998,615	HKD31.70	1,250,000	10,248,615

During the six months ended 30 June 2016, 3,750,000 options were granted to one director of the Company (for the six months ended 30 June 2015: Nil).

As a result of the options exercised during the six months ended 30 June 2016, 4,906,012 ordinary shares (during the six months ended 30 June 2015: 6,773,550 ordinary shares) were issued by the Company (Note 19). The weighted average price of the shares at the time these options were exercised was HKD160.71 per share (equivalent to approximately RMB134.98 per share) (for the six months ended 30 June 2015: HKD141.76 per share (equivalent to approximately RMB111.97 per share)).

Notes to the Interim Financial Information

20 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2016 and 31 December 2015 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		30 June 2016	31 December 2015
7 years commencing from the date of grant of options (Post-IPO Option Scheme II)	HKD18.06	957,500	2,851,000
	HKD26.08-HKD49.76	7,694,617	8,094,967
	HKD112.30-HKD158.10	25,015,376	14,751,338
		33,667,493	25,697,305
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD31.70	2,500,000	5,000,000
		36,167,493	30,697,305

The outstanding share options as of 30 June 2016 were divided into three 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 five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

Notes to the Interim Financial Information

20 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the dividend adjusted Black-Scholes option pricing model and “Enhanced FAS 123” binomial model (“Valuation Models”) 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 2016 was HKD56.55 per share (equivalent to approximately RMB47.27 per share) (for the six months ended 30 June 2015: HKD43.59 per share (equivalent to approximately RMB34.52 per share)).

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
Weighted average share price at the grant date	HKD158.10	HKD149.80
Risk free rate	1.08%	0.36%-0.97%
Dividend yield	0.33%	0.36%
Expected volatility (Note)	35.00%	41.00%

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

20 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted two share award schemes (the “Share Award Schemes”), both of which are administered by an independent trustee appointed by the Group as of 30 June 2016. 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 2016 and 2015 are as follows:

	Number of awarded shares
At 1 January 2016	91,786,907
Granted	25,984,856
Lapsed	(1,773,912)
Vested and transferred	(24,714,206)
	91,283,645
At 30 June 2016	91,283,645
Vested but not transferred as at 30 June 2016	–
At 1 January 2015	82,035,522
Granted	10,088,130
Lapsed	(2,289,714)
Vested and transferred	(4,556,637)
	85,277,301
At 30 June 2015	85,277,301
Vested but not transferred as at 30 June 2015	–

During the six months ended 30 June 2016, 50,000 awarded shares were granted to three independent non-executive directors of the Company (for the six months ended 30 June 2015: 75,000 awarded shares were granted to three 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 date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

Notes to the Interim Financial Information

20 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes (continued)

The weighted average fair value of awarded shares granted during the six months ended 30 June 2016 was HKD147.62 per share (equivalent to approximately RMB124.46 per share) (during the six months ended 30 June 2015: HKD149.59 per share (equivalent to approximately RMB118.43 per share)).

The outstanding awarded shares as of 30 June 2016 were divided into two 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 two months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

For aligning the interests of key employees with the Group, the Group established three employees' investment plans in the form of limited liability partnerships in 2011, 2014 and 2015 (the "EIS"), respectively. According to the term of the EISs, the Board may, at its absolute discretion, select any employee 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 up to four to seven years.

Wholly-owned subsidiaries of the Company act as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company.

The related share-based compensation expenses incurred for the six months ended 30 June 2016 and 2015 were insignificant to the Group.

(d) Share options and restricted share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries 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 subsidiary ("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.

Notes to the Interim Financial Information

20 SHARE-BASED PAYMENTS (continued)

(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 2016, the Expected Retention Rate for the grantees from the Company and its subsidiaries were assessed to be 85%-97% (31 December 2015: 85%-97%).

21 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
0 - 30 days	12,480	10,019
31 - 60 days	1,604	1,774
61 - 90 days	2,009	1,518
Over 90 days	5,075	2,389
	21,168	15,700

Notes to the Interim Financial Information

22 OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Deposits received from customers (Note)	124,727	54,108
Staff costs and welfare accruals	6,381	7,719
Purchase of land use rights and construction related costs	833	1,459
Selling and marketing expense accruals	1,659	1,628
General and administrative expenses accruals	721	966
Convertible bonds of a subsidiary	–	588
Interests payable	386	386
Purchase consideration payables for investee companies	357	351
Liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	411	314
Others	3,284	2,680
	138,759	70,199

Note:

As at 30 June 2016, deposits received from customers mainly represent the amounts received from the Group's users and deposited with the banks, as "restricted cash", under the users' entrustment.

23 LONG-TERM PAYABLES

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Payables to the licensed online contents and running royalty fee for online games	2,580	2,361
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	395	487
Others	961	778
	3,936	3,626

Notes to the Interim Financial Information

24 BORROWINGS

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	33,030	12,922
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	9,947	10,715
Current portion of long-term USD bank borrowings, unsecured (Note (a))	133	714
	10,080	11,429
	43,110	24,351

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD5,001 million (31 December 2015: USD2,100 million). Applicable interest rates are at LIBOR plus 0.91% to 1.51% (31 December 2015: LIBOR plus 1.02% to 1.52%) per annum.

The long-term bank borrowings were repayable as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Within 1 year	133	714
Between 1 and 2 years	464	6,623
Between 2 and 5 years	32,566	6,299
	33,163	13,636

- (b) The aggregate principal amount of short-term USD bank borrowings was USD1,500 million (31 December 2015: USD1,650 million). Applicable interest rates are at LIBOR plus 0.70% to 0.80% (31 December 2015: LIBOR plus 0.75% to 0.85% or an interest rate of 1.125%) per annum.

The carrying amounts of borrowings approximated their fair values as at 30 June 2016.

Notes to the Interim Financial Information

25 NOTES PAYABLE

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	31,010	33,583
Non-current portion of long-term HKD notes payable	3,575	3,509
	34,585	37,092
Included in current liabilities:		
Current portion of long-term USD notes payable	7,282	3,886
	41,867	40,978

Note:

The aggregate principal amount of USD notes payable and HKD notes payable were USD5,800 million (31 December 2015: USD5,800 million) and HKD4,200 million (31 December 2015: HKD4,200 million), respectively. The interest rate range of the notes payable is from 2.00% to 4.70% (31 December 2015: 2.00% to 4.70%) per annum.

The notes payable were repayable as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Within 1 year	7,282	3,886
Between 1 and 2 years	3,965	3,236
Between 2 and 5 years	24,046	27,421
Over 5 years	6,574	6,435
	41,867	40,978

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

As of 30 June 2016, the fair value of the notes payable amounted to RMB43,328 million (31 December 2015: RMB41,372 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.

Notes to the Interim Financial Information

26 DEFERRED INCOME TAXES

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

	Deferred income tax assets RMB'Million	Unaudited Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2016	757	(3,668)	(2,911)
Credit/(charge) to consolidated income statement (Note 10)	442	(510)	(68)
Credit to consolidated statement of changes in equity	1,483	263	1,746
Other additions (Note)	2,057	–	2,057
Currency translation differences	–	(5)	(5)
	<u>4,739</u>	<u>(3,920)</u>	<u>819</u>
At 30 June 2016			
At 1 January 2015	322	(2,942)	(2,620)
Credit/(charge) to consolidated income statement (Note 10)	299	(175)	124
Withholding tax paid in relation to the remittance of dividends	–	326	326
Charge to consolidated statement of changes in equity	–	(227)	(227)
Business combinations	–	2	2
Currency translation differences	–	(1)	(1)
	<u>621</u>	<u>(3,017)</u>	<u>(2,396)</u>

Note:

During the six months ended 30 June 2016, there was timing difference for tax deduction on certain accruals of the Group, as a result, relevant income tax has been paid and related deferred tax assets have been recognised by the Group in respect of the timing difference, which is expected to be recovered within 12 months.

27 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 30 June 2016.

Notes to the Interim Financial Information

28 COMMITMENTS

(a) Capital commitments

Capital commitments as at 30 June 2016 and 31 December 2015 are analysed as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	2,253	2,239
Purchase of other fixed assets	72	631
Capital investments in investees (Note)	2,339	2,249
	4,664	5,119

Note:

Save for disclosed above, the Group also entered into an agreement to investment in Supercell Oy ("Supercell") as detailed in Note 30.

(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
	2016	2015
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	347	428
Later than one year and not later than five years	749	827
Later than five years	1,164	1,198
	2,260	2,453

Notes to the Interim Financial Information

28 COMMITMENTS (continued)

(c) Other commitments

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

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	2,661	2,090
Later than one year and not later than five years	5,629	3,363
Later than five years	2,153	540
	10,443	5,993

29 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 14 (Transactions with associates), Note 17 (Loans to investees and investees' shareholders), Note 20 (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 2016, and no other material related parties' balances as at 30 June 2016.

30 INVESTMENT IN SUPERCCELL

On 21 June 2016, a limited liability company established and currently indirectly wholly owned by the Company (the "Consortium") has agreed to acquire up to approximately 84.3% equity interest in Supercell for an aggregate consideration, payable in three instalments, currently expected to be approximately USD7.8 billion ("Acquisition").

The Company is currently in discussions with potential co-investors in investing in the Consortium. Upon the potential co-investors joining the Consortium, the Company currently expects to maintain a 50% voting interest in the Consortium through various forms of financial instruments.

The consideration is expected to be funded by the Consortium with an investment by the Company through the Consortium up to USD4 billion, and the remaining balance of the consideration is expected to be financed by investments from potential co-investors into the Consortium and bank borrowings by the Consortium. The final funding combination is subject to modification as required in the Consortium and through negotiations with financing sources.

The Acquisition is expected to be completed by the end of 2016.

Notes to the Interim Financial Information

31 SUBSEQUENT EVENTS

The integration of the Group's online music business with China Music Corporation ("CMC")

Subsequent to the balance sheet date, the Group completed an integration of its online music business with CMC, an existing associate of the Group which also operates online music business in the PRC, in the form of integrating the Group's online music related operating assets and liabilities into CMC ("Integration") in exchange of subscription of additional equity interest of CMC by the Group. Upon the completion of the Integration, together with the interest already owned by the Group before this transaction, CMC became a subsidiary of the Group and the Group's interest in CMC was approximately 61.6% of the issued and outstanding shares.

Due to the timing of the completion of the Integration, the Group is in the process of finalising the related valuation for accounting purpose, accordingly, certain disclosures in relation to the business combination as at the date of completion such as the purchase price allocation and pro forma sales and earnings have not been presented.

Other Information

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2016, 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)	829,507,500	8.82%
Lau Chi Ping Martin	Personal *	45,618,000 (Note 2)	0.48%
Li Dong Sheng	Personal *	36,300 (Note 3)	0.0004%
Iain Ferguson Bruce	Personal *	490,000 (Note 4)	0.005%
Ian Charles Stone	Personal *	165,000	0.005%
	Family †	<u>300,000</u>	
		465,000 (Note 5)	

Note:

1. These shares are held by Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng.
2. The interest comprises 34,368,000 shares and 11,250,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out below under "Share Option Schemes".
3. The interest comprises 50 shares and 36,250 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".

Other Information

4. The interest comprises 417,500 shares and 72,500 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 392,500 shares and 72,500 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”.

* 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 2016.

Other Information

SHARE OPTION SCHEMES

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. The Pre-IPO Option Scheme and the Post-IPO Option Scheme I expired on 31 December 2011 and 23 March 2014 respectively. In respect of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, the Board may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. Movements of the options under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III are detailed in Note 20 to the Interim Financial Information as included in this interim report.

As at 30 June 2016, there were a total of 11,250,000 outstanding share options granted to the director of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options			As at 30 June 2016	Exercise price HKD	Exercise period
		As at 1 January 2016	Granted during the period	Exercised during the period			
Lau Chi Ping Martin	24 March 2010	5,000,000	–	2,500,000 (Note 4)	2,500,000	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 (Note 5)	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 3)
Total:		<u>10,000,000</u>	<u>3,750,000</u>	<u>2,500,000</u>	<u>11,250,000</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 25% each 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 20% each 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 25% each 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 30 March 2016 was HKD157.3.
5. The closing price immediately before the date on which the options were granted on 21 March 2016 was HKD157.9.
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 the directors of the Company) during the six months ended 30 June 2016 are as follows:

Date of grant	As at 1 January 2016	Granted during the period	Exercised during the period (Note 9)	Lapsed during the period	As at 30 June 2016	Exercise price HKD	Exercise period
10 Jul 2009	182,300	–	182,300	–	–	18.06	10 Jul 2010 to 9 Jul 2016 (Note 1)
10 Jul 2009	664,950	–	397,450	–	267,500	18.06	10 Jul 2011 to 9 Jul 2016 (Note 2)
10 Jul 2009	2,003,750	–	1,313,750	–	690,000	18.06	10 Jul 2012 to 9 Jul 2016 (Note 3)
24 Nov 2009	1,250,000	–	–	–	1,250,000	29.32	24 Nov 2012 to 23 Nov 2016 (Note 3)
24 Mar 2010	25,000	–	–	–	25,000	31.70	24 Mar 2012 to 23 Mar 2017 (Note 2)
24 Mar 2010	366,667	–	–	–	366,667	31.70	24 Mar 2014 to 23 Mar 2017 (Note 4)
5 Jul 2010	137,250	–	71,750	–	65,500	26.08	5 Jul 2011 to 4 Jul 2017 (Note 1)
5 Jul 2010	1,800,500	–	150,750	48,800	1,600,950	26.08	5 Jul 2012 to 4 Jul 2017 (Note 2)
5 Jul 2010	1,557,500	–	–	–	1,557,500	26.08	5 Jul 2013 to 4 Jul 2017 (Note 3)
13 Aug 2010	12,500	–	–	–	12,500	30.14	13 Aug 2012 to 12 Aug 2017 (Note 2)
24 Mar 2011	876,250	–	77,500	–	798,750	38.88	24 Mar 2014 to 23 Mar 2018 (Note 3)
24 Mar 2011	250,000	–	–	–	250,000	38.88	24 Mar 2015 to 23 Mar 2018 (Note 4)
15 Aug 2011	128,800	–	19,800	–	109,000	37.80	15 Aug 2012 to 14 Aug 2018 (Note 1)
15 Aug 2011	828,000	–	6,250	–	821,750	37.80	15 Aug 2013 to 14 Aug 2018 (Note 2)
15 Aug 2011	100,000	–	–	–	100,000	37.80	15 Aug 2014 to 14 Aug 2018 (Note 3)
13 Sep 2012	762,500	–	25,500	–	737,000	49.76	13 Sep 2013 to 12 Sep 2019 (Note 1)
25 Mar 2014	2,562,500	–	–	–	2,562,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 5)
25 Mar 2014	3,850,000	–	125,000	–	3,725,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 1)
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 5)
10 Jul 2014	1,724,813	–	35,962	–	1,688,851	124.30	10 Jul 2015 to 9 Jul 2021 (Note 6)
12 Dec 2014	80,650	–	–	–	80,650	116.40	12 Dec 2016 to 11 Dec 2021 (Note 7)
2 Apr 2015	525,000	–	–	–	525,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 6)
10 Jul 2015	945,875	–	–	–	945,875	148.90	10 Jul 2016 to 9 Jul 2022 (Note 6)
21 Mar 2016	–	6,675,000	–	–	6,675,000	158.10	21 Mar 2017 to 20 Mar 2023
							(Notes 6 and 8)
Total:	<u>20,697,305</u>	<u>6,675,000</u>	<u>2,406,012</u>	<u>48,800</u>	<u>24,917,493</u>		

Other Information

Note:

1. 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 20% each 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 2 years after the grant date, and 20% each 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 20% of the total options can be exercised 3 years after the grant date, and 20% each of the total options will become exercisable in each subsequent year.
4. For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 4 years after the grant date, and 33.33% each of the total options will become exercisable in each subsequent year.
5. 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 33.33% each of the total options will become exercisable in each subsequent year.
6. 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 25% each of the total options will become exercisable in each subsequent year.
7. 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 25% each of the total options will become exercisable in each subsequent year.
8. The closing price immediately before the date on which the options were granted on 21 March 2016 was HKD157.9.
9. The weighted average closing price immediately before the dates on which the options were exercised was HKD163.06.

Other Information

SHARE AWARD SCHEMES

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

2007 Share Award Scheme

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

Pursuant to the 2007 Share Award Scheme, the Board shall select the Eligible 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 the grant of the award. Vesting of the Awarded Shares will be conditional on the Selected Participants satisfying all vesting conditions specified by the Board at the time of making the award and, for the majority of the Selected Participants, the relevant Awarded Shares will be transferred to the Selected Participants on or about the relevant vesting dates.

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 share capital of the Company respectively as at the Adoption Date II.

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

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

Other Information

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.

During the six months ended 30 June 2016, a total of 25,984,856 Awarded Shares were granted under the 2013 Share Award Scheme and out of which 50,000 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 2016 are set out in Note 20 to the Interim Financial Information as included in this interim report.

Other Information

As at 30 June 2016, there were a total of 181,250 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 2016	Vesting period
		As at 1 January 2016	Granted during the period	Vested during the period		
Iain Ferguson Bruce	17 March 2011	20,000	–	20,000	–	17 March 2012 to 17 March 2016
	24 March 2014	40,000	–	10,000	30,000	24 March 2015 to 24 March 2019
	2 April 2015	30,000	–	7,500	22,500	2 April 2016 to 2 April 2019
	21 March 2016	–	20,000	–	20,000	21 March 2017 to 21 March 2020
	Total:	90,000	20,000	37,500	72,500	
Iain Charles Stone	17 March 2011	15,000	–	15,000	–	17 March 2012 to 17 March 2016
	24 March 2014	40,000	–	10,000	30,000	24 March 2015 to 24 March 2019
	2 April 2015	30,000	–	7,500	22,500	2 April 2016 to 2 April 2019
	21 March 2016	–	20,000	–	20,000	21 March 2017 to 21 March 2020
	Total:	85,000	20,000	32,500	72,500	
Li Dong Sheng	24 March 2014	20,000	–	5,000	15,000	24 March 2015 to 24 March 2019
	2 April 2015	15,000	–	3,750	11,250	2 April 2016 to 2 April 2019
	21 March 2016	–	10,000	–	10,000	21 March 2017 to 21 March 2020
	Total:	35,000	10,000	8,750	36,250	
Grand Total:	210,000	50,000	78,750	181,250		

Other Information

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 44, 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 12th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 22 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 RMB6,177,600 in 2016 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 43, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science degree in Electrical Engineering from the University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong. On 10 March 2014, Mr Lau was appointed as a director of JD.com, Inc., an online direct sales company in China, which has been listed on NASDAQ since May 2014. On 31 March 2014, Mr Lau was appointed as a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, which has been listed on New York Stock Exchange since April 2014. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company. Mr Lau is entitled to an annual base salary of USD1,000,000 in 2016 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.

Jacobus Petrus (Koos) Bekker, age 63, 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 on public bodies. In April 2015, he succeeded Mr Vosloo as 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.

Other Information

Charles St Leger Searle, age 52, 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. 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. Mr Searle has more than 22 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 59, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange. Mr Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on New York Stock Exchange Euronext. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 21 years of experience in the information technology field. Mr Li is entitled to a director's fee of HKD650,000 per annum for the year 2016, which is determined with reference to his duties and responsibilities with the Company.

Iain Ferguson Bruce, age 75, 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 51 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 Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Louis XIII Holdings Limited (formerly known as Paul Y. Engineering Group Limited), a construction, engineering services and hotel development company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the Stock Exchange. Mr Bruce is also an independent non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce was an independent non-executive director of Vitasoy International Holdings Limited, a beverage manufacturing company, up to 4 September 2014, and of Sands China Ltd., an operator of integrated resorts and casinos, up to 11 March 2016, both of these companies are publicly listed on the Stock Exchange. Mr Bruce is entitled to a director's fee of HKD1,000,000 per annum for the year 2016, which is determined with reference to his duties and responsibilities with the Company.

Other Information

Ian Charles Stone, age 65, 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 26 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 45 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 HKD800,000 per annum for the year 2016, which is determined with reference to his duties and responsibilities with the Company.

Yang Siu Shun, age 60, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 12th 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 HKD700,000 per annum starting from 1 July 2016, which is determined with reference to his duties and responsibilities with the Company.

Other Information

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, 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)	3,151,201,900	33.49%
Advance Data Services Limited	Long position	Corporate (Note 2)	829,507,500	8.82%
JPMorgan Chase & Co.	Long position	Beneficial owner	225,584,827	
		Investment manager	92,887,270	
		Trustee (other than a bare trustee)	36,857	
		Custodian corporation/ approved lending agent	341,268,247	
		Total (Note 3(i)):	659,777,201	7.01%
	Short position	Beneficial owner (Note 3(ii))	60,939,711	0.65%

Other Information

Note:

1. MIH TC is controlled by Naspers Limited through its wholly-owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited are deemed to be interested in the same block of 3,151,201,900 shares under Part XV of the SFO.
2. 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 22,881,818 underlying shares of the Company of which 4,456,142 underlying shares are derived from listed and physically settled derivatives, 1,952,850 underlying shares are derived from listed and cash settled derivatives, 13,742,416 underlying shares are derived from unlisted and physically settled derivatives and 2,730,410 underlying shares are derived from unlisted and cash settled derivatives. It also includes 341,268,247 shares in lending pool.

(ii) Such short position includes derivative interests in 21,403,872 underlying shares of the Company of which 5,397,971 underlying shares are derived from listed and physically settled derivatives, 4,488,610 underlying shares are derived from listed and cash settled derivatives, 2,467,667 underlying shares are derived from unlisted and physically settled derivatives and 9,049,624 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 30 June 2016, had interests or short positions in the shares and underlying shares in 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 2016.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2016, the Group had 31,557 employees (30 June 2015: 28,072). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training programs, discretionary bonuses, share awards and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the six months ended 30 June 2016 was RMB10,205 million (for the six months ended 30 June 2015: RMB8,602 million).

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2016.

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 2015 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the CG Code during the period from 1 January 2016 to 30 June 2016.

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 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
“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
“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 provisions set out in Appendix 14 to the Listing Rules
“CMC”	China Music Corporation, a limited liability company incorporated under the laws of the Cayman Islands
“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
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes
“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

Definition

Term	Definition
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IFRS”	International Financial Reporting Standards
“IPO”	initial public offering
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MIH TC”	MIH TC Holdings Limited
“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
“NBA”	the National Basketball Association
“PC”	personal computer
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001

Definition

Term	Definition
“PVP”	player-versus-player
“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 respective 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 share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“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

Website: www.tencent.com

Tencent Group Head Office

Tencent Building, Kejizhongyi Avenue, Hi-tech Park
Nanshan District, Shenzhen, the PRC

Zipcode : 518057

Telephone : 86-755-86013388

Facsimile : 86-755-86013399

Tencent Holdings Limited Hong Kong Office

29/F., Three Pacific Place
No.1 Queen's Road East
Wanchai, Hong Kong

Telephone : 852-21795122

Facsimile : 852-25201148

