

# Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號 : 700)



*smart communication inspires*

智慧溝通 靈感無限

**2017**  
INTERIM REPORT

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# Corporate Information

## DIRECTORS

### Executive Directors

Ma Huateng (*Chairman*)

Lau Chi Ping Martin

### Non-Executive Directors

Jacobus Petrus (Koos) Bekker

Charles St Leger Searle

### Independent Non-Executive Directors

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

## AUDIT COMMITTEE

Iain Ferguson Bruce (*Chairman*)

Ian Charles Stone

Charles St Leger Searle

Yang Siu Shun

## CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

## INVESTMENT COMMITTEE

Lau Chi Ping Martin (*Chairman*)

Ma Huateng

Charles St Leger Searle

## NOMINATION COMMITTEE

Ma Huateng (*Chairman*)

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Charles St Leger Searle

## REMUNERATION COMMITTEE

Ian Charles Stone (*Chairman*)

Li Dong Sheng

Jacobus Petrus (Koos) Bekker

## AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

## PRINCIPAL BANKERS

Bank of China Limited

The Hongkong and Shanghai Banking Corporation Limited

## REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## TENCENT GROUP HEAD OFFICE

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Kejizhongyi Avenue

Hi-tech Park

Nanshan District

Shenzhen, 518057

The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai

Hong Kong

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House – 3rd Floor

24 Shedden Road

P.O. Box 1586

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](http://www.tencent.com)

## STOCK CODE

700

# Financial Performance Highlights

## SECOND QUARTER OF 2017

	<b>30 June 2017</b>	<b>Unaudited Three months ended</b>		31 March 2017	Quarter- on-quarter change
		30 June 2016	Year- on-year change		
(RMB in millions, unless specified)					
Revenues	<b>56,606</b>	35,691	59%	49,552	14%
Gross profit	<b>28,306</b>	20,456	38%	25,443	11%
Operating profit	<b>22,560</b>	14,329	57%	19,272	17%
Profit for the period	<b>18,254</b>	10,880	68%	14,548	25%
Profit attributable to equity holders of the Company	<b>18,231</b>	10,737	70%	14,476	26%
Non-GAAP profit attributable to equity holders of the Company	<b>16,391</b>	11,319	45%	14,211	15%
EPS (RMB per share)					
– basic	<b>1.939</b>	1.146	69%	1.540	26%
– diluted	<b>1.914</b>	1.133	69%	1.522	26%
Non-GAAP EPS (RMB per share)					
– basic	<b>1.743</b>	1.208	44%	1.512	15%
– diluted	<b>1.721</b>	1.194	44%	1.494	15%

# Financial Performance Highlights

## FIRST HALF OF 2017

	Unaudited		
	Six months ended		
	30 June 2017	30 June 2016	Year-on-year change
	(RMB in millions, unless specified)		
Revenues	<b>106,158</b>	67,686	57%
Gross profit	<b>53,749</b>	39,045	38%
Operating profit	<b>41,832</b>	27,727	51%
Profit for the period	<b>32,802</b>	20,148	63%
Profit attributable to equity holders of the Company	<b>32,707</b>	19,920	64%
Non-GAAP profit attributable to equity holders of the Company	<b>30,602</b>	21,351	43%
EPS (RMB per share)			
– basic	<b>3.480</b>	2.128	64%
– diluted	<b>3.436</b>	2.102	63%
Non-GAAP EPS (RMB per share)			
– basic	<b>3.256</b>	2.280	43%
– diluted	<b>3.215</b>	2.253	43%

## Chairman's Statement

I am pleased to present our interim report for the three and six months ended 30 June 2017 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 2017 increased by 70% and 64% on a year-on-year basis to RMB18,231 million and RMB32,707 million respectively. Basic EPS for the three and six months ended 30 June 2017 were RMB1.939 and RMB3.480 respectively. Diluted EPS for the three and six months ended 30 June 2017 were RMB1.914 and RMB3.436 respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the three and six months ended 30 June 2017 increased by 45% and 43% on a year-on-year basis to RMB16,391 million and RMB30,602 million respectively. Non-GAAP basic EPS for the three and six months ended 30 June 2017 were RMB1.743 and RMB3.256 respectively. Non-GAAP diluted EPS for the three and six months ended 30 June 2017 were RMB1.721 and RMB3.215 respectively.

### BUSINESS REVIEW AND OUTLOOK

#### Company Financial Performance

*In the second quarter of 2017*

We achieved 59% year-on-year revenue growth, driven primarily by smart phone games and PC games, payment related services, online advertising, and digital content subscriptions and sales.

Operating profit grew by 57% year-on-year.

Profit attributable to equity holders of the Company increased by 70% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 45%. Free cash flow grew by 80%.





## Chairman's Statement

### *Online Games*

PC client games achieved approximately RMB13.6 billion in revenue, representing 29% year-on-year revenue growth with exceptional strength from key titles such as LoL and DnF. ARPU generally increased both year-on-year and quarter-on-quarter. We expect PC client game revenue growth rates to decelerate in future periods.

Smart phone games grew by 54% year-on-year to approximately RMB14.8 billion in revenue (including smart phone games revenue attributable to our social networks business) and exceeded PC client games revenue for the first time. Revenue growth in smart phone games was driven by existing titles such as Honour of Kings in the MOBA genre, and new titles such as the China version of Contra Return in the Action genre, Dragon Nest Mobile and Legacy TLBB Mobile in the RPG genre.

### *Digital Content*

Digital content revenue continued to record rapid growth during the quarter, primarily driven by the strong performance of virtual gifting within live broadcast, video subscriptions and music services subscriptions.

### *Online Advertising*

Our online advertising business achieved 55% year-on-year growth in revenue.

For media advertising, increased mobile video views and the news feeds of Tencent News were the key contributors to year-on-year revenue growth. High quality content, notably certain licensed TV dramas and self-commissioned variety shows, attracted users to our video platforms and generated a substantial increase in advertising revenue. While our mobile news services maintained industry leadership in terms of DAU, we focused on sharpening personalized recommendation of our news feeds to further enhance our user experience.

For social and others advertising, Weixin properties, our mobile browser and advertising network, were the primary drivers of revenue growth. We increased inventories in Weixin by lowering the traffic threshold for loading advertisements in Weixin Official Accounts and we expanded our self-service advertising platform to cover first-tier cities for placing Weixin Moments advertisements.

### *Others*

We recorded 177% year-on-year revenue growth for other businesses, which was primarily driven by the growth of payment related and cloud services. Payment business for commercial transactions increased rapidly as we strengthened cooperation with Meituan-Dianping and other channel partners to expand our offline merchant base.

Tencent Cloud further expanded its global infrastructure coverage and now operates 34 availability zones around the world. In addition to solidifying our lead in providing cloud services to the game, video and live broadcast industries, we expanded our market share in TMT and finance industries during the quarter.



## Chairman's Statement

We view artificial intelligence ("AI") as an essential capability that benefits our businesses by enhancing our overall user experience, sharpening our targeting technology and empowering our ecosystem partners. Our in-house engineers have recently made breakthroughs in several areas including Go Chess AI, face recognition and medical imaging. Artificial intelligence is a strategic initiative and we will continue to make long-term investments to strengthen our competence in machine learning, computer vision, speech recognition and natural language processing. Given the intensifying competitive nature of the industry, we expect our investment in new initiatives such as payment, cloud services and AI to increase.

### DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all our staff and the management team for their unwavering teamwork, dedication and contribution. I would also like to thank all our shareholders and stakeholders for their continued trust and support. Looking ahead, we will continue to leverage our innovation capabilities to develop diversified products and services on our platforms for enriching our users' lives.

**Ma Huateng**

*Chairman*

Hong Kong, 16 August 2017

# Management Discussion and Analysis

## SECOND QUARTER OF 2017 COMPARED TO SECOND QUARTER OF 2016

The following table sets forth the comparative figures for the second quarter of 2017 and the second quarter of 2016:

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	30 June
	<b>2017</b>	2016
	(RMB in millions)	
Revenues	<b>56,606</b>	35,691
Cost of revenues	<b>(28,300)</b>	(15,235)
Gross profit	<b>28,306</b>	20,456
Interest income	<b>959</b>	626
Other gains, net	<b>5,125</b>	911
Selling and marketing expenses	<b>(3,660)</b>	(2,365)
General and administrative expenses	<b>(8,170)</b>	(5,299)
Operating profit	<b>22,560</b>	14,329
Finance costs, net	<b>(834)</b>	(377)
Share of profit/(losses) of associates and joint ventures	<b>498</b>	(292)
Profit before income tax	<b>22,224</b>	13,660
Income tax expense	<b>(3,970)</b>	(2,780)
Profit for the period	<b>18,254</b>	10,880
Attributable to:		
Equity holders of the Company	<b>18,231</b>	10,737
Non-controlling interests	<b>23</b>	143
	<b>18,254</b>	10,880
Non-GAAP profit attributable to equity holders of the Company	<b>16,391</b>	11,319

## Management Discussion and Analysis

*Revenues.* Revenues increased by 59% to RMB56,606 million for the second quarter of 2017 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2017 and the second quarter of 2016:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 June 2017</b>		<b>30 June 2016</b>	
	<b>Amount</b>	<b>% of total revenues</b>	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	<b>36,804</b>	<b>65%</b>	25,680	72%
Online advertising	<b>10,148</b>	<b>18%</b>	6,532	18%
Others	<b>9,654</b>	<b>17%</b>	3,479	10%
Total revenues	<b>56,606</b>	<b>100%</b>	35,691	100%

- Revenues from our VAS business increased by 43% to RMB36,804 million for the second quarter of 2017 on a year-on-year basis. Online games revenues increased by 39% to RMB23,861 million, primarily driven by revenue growth from our smart phone games, including existing titles such as Honour of Kings, and new titles such as the China version of Contra Return, Dragon Nest Mobile and Legacy TLBB Mobile, and from our key PC titles such as LoL and DnF. Social networks revenues increased by 51% to RMB12,943 million, mainly reflecting growth in revenues from digital content services such as live broadcast, video and music, as well as from virtual item sales.
- Revenues from our online advertising business increased by 55% to RMB10,148 million for the second quarter of 2017 on a year-on-year basis. Media advertising revenues grew by 48% to RMB4,077 million. The increase mainly reflected higher traffic and thus revenues for our Tencent Video services and the development of news feeds for our Tencent News products. Social and others advertising revenues grew by 61% to RMB6,071 million. The increase primarily reflected growth in advertising revenues derived from Weixin (primarily Weixin Moments and Weixin Official Accounts) and other mobile apps.<sup>2</sup>
- Revenues from our other businesses increased by 177% to RMB9,654 million for the second quarter of 2017 on a year-on-year basis. The increase was mainly due to revenue growth from our payment related and cloud services.

<sup>2</sup> Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 71% to RMB6,332 million and brand display advertising revenues increased by 35% to RMB3,816 million on a year-on-year basis.

## Management Discussion and Analysis

*Cost of revenues.* Cost of revenues increased by 86% to RMB28,300 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater sharing and content costs, costs of payment related services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 50% for the second quarter of 2017 from 43% for the second quarter of 2016, primarily due to business mix changes. The following table sets forth our cost of revenues by line of business for the second quarter of 2017 and the second quarter of 2016:

	<b>Unaudited</b>			
	<b>Three months ended</b>			
	<b>30 June 2017</b>		<b>30 June 2016</b>	
	<b>Amount</b>	<b>% of segment revenues</b>	<b>Amount</b>	<b>% of segment revenues</b>
	(RMB in millions, unless specified)			
VAS	<b>14,501</b>	<b>39%</b>	8,550	33%
Online advertising	<b>6,307</b>	<b>62%</b>	3,575	55%
Others	<b>7,492</b>	<b>78%</b>	3,110	89%
Total cost of revenues	<b><u>28,300</u></b>		<b><u>15,235</u></b>	

- Cost of revenues for our VAS business increased by 70% to RMB14,501 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater sharing and content costs, as well as greater channel costs for our smart phone games, in turn due to closer cooperation with third-party app stores and an increased share of smart phone game revenues from iOS.
- Cost of revenues for our online advertising business increased by 76% to RMB6,307 million for the second quarter of 2017 on a year-on-year basis. The increase was primarily due to greater investment in, and amortisation of, video content, particularly self-commissioned video content. Other costs such as traffic acquisition costs also increased.
- Cost of revenues for our other businesses increased by 141% to RMB7,492 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater costs in payment related and cloud services.

## Management Discussion and Analysis

*Other gains, net.* We recorded net other gains totalling RMB5,125 million for the second quarter of 2017, which mainly consisted of fair value gains as a result of significant increases in valuations of certain investments in verticals including bike sharing and fintech, as well as deemed disposal gains arising from the capital activities of certain investee companies, particularly the IPO of Korean mobile game publisher Netmarble, partly offset by impairment provision charges for certain investee companies.

*Selling and marketing expenses.* Selling and marketing expenses increased by 55% to RMB3,660 million for the second quarter of 2017 on a year-on-year basis. The increase primarily reflected greater marketing spending on products and platforms such as online games, payment related services and online media, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses decreased to 6% for the second quarter of 2017 from 7% for the second quarter of 2016.

*General and administrative expenses.* General and administrative expenses increased by 54% to RMB8,170 million for the second quarter of 2017 on a year-on-year basis. The increase was primarily driven by greater research and development expenses, as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 14% for the second quarter of 2017 from 15% for the second quarter of 2016.

*Finance costs, net.* Net finance costs increased by 121% to RMB834 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater interest expenses as a result of higher amount of indebtedness.

*Share of profit/(losses) of associates and joint ventures.* We recorded share of profit of associates and joint ventures of RMB498 million for the second quarter of 2017, compared to share of losses of RMB292 million for the second quarter of 2016. Some of our investee companies registered profits (in some cases including one-off gains) for the second quarter of 2017, compared to losses for the second quarter of 2016.

*Income tax expense.* Income tax expense increased by 43% to RMB3,970 million for the second quarter of 2017 on a year-on-year basis, primarily reflecting greater profit before income tax and withholding tax.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 70% to RMB18,231 million for the second quarter of 2017 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 45% to RMB16,391 million.

# Management Discussion and Analysis

## SECOND QUARTER OF 2017 COMPARED TO FIRST QUARTER OF 2017

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	31 March
	<b>2017</b>	2017
	(RMB in millions)	
Revenues	<b>56,606</b>	49,552
Cost of revenues	<b>(28,300)</b>	(24,109)
Gross profit	<b>28,306</b>	25,443
Interest income	<b>959</b>	808
Other gains, net	<b>5,125</b>	3,191
Selling and marketing expenses	<b>(3,660)</b>	(3,158)
General and administrative expenses	<b>(8,170)</b>	(7,012)
Operating profit	<b>22,560</b>	19,272
Finance costs, net	<b>(834)</b>	(691)
Share of profit/(losses) of associates and joint ventures	<b>498</b>	(375)
Profit before income tax	<b>22,224</b>	18,206
Income tax expense	<b>(3,970)</b>	(3,658)
Profit for the period	<b>18,254</b>	14,548
Attributable to:		
Equity holders of the Company	<b>18,231</b>	14,476
Non-controlling interests	<b>23</b>	72
	<b>18,254</b>	14,548
Non-GAAP profit attributable to equity holders of the Company	<b>16,391</b>	14,211



## Management Discussion and Analysis

*Revenues.* Revenues increased by 14% to RMB56,606 million for the second quarter of 2017 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 5% to RMB36,804 million for the second quarter of 2017. Online games revenues increased by 5% to RMB23,861 million. The increase mainly reflected higher revenues from our major smart phone games such as Honour of Kings, and newly launched smart phone games such as the China version of Contra Return, Dragon Nest Mobile and Legacy TLBB Mobile, partially offset by weaker seasonality for our PC client games. Social networks revenues grew by 5% to RMB12,943 million. The increase was mainly driven by revenue growth from our digital content services such as live broadcast, literature and music, and from virtual item sales.
- Revenues from our online advertising business increased by 47% to RMB10,148 million for the second quarter of 2017. Media advertising revenues climbed by 62% to RMB4,077 million, primarily due to positive seasonality and an increase in traffic and thus revenues from Tencent Video. Social and others advertising revenues climbed by 39% to RMB6,071 million, mainly driven by positive seasonality and increased advertising revenues derived from Weixin Moments and Weixin Official Accounts.<sup>3</sup>
- Revenues from our other businesses increased by 28% to RMB9,654 million for the second quarter of 2017. The increase was mainly due to higher revenues from our payment related services, TV drama and movie investments, as well as cloud services.

*Cost of revenues.* Cost of revenues increased by 17% to RMB28,300 million for the second quarter of 2017 on a quarter-on-quarter basis. The increase primarily reflected greater sharing and content costs, costs of payment related services, and channel costs. As a percentage of revenues, cost of revenues increased to 50% for the second quarter of 2017 from 49% for the first quarter of 2017.

- Cost of revenues for our VAS business increased by 6% to RMB14,501 million for the second quarter of 2017. The increase mainly reflected greater channel costs.
- Cost of revenues for our online advertising business increased by 40% to RMB6,307 million for the second quarter of 2017. The increase was primarily due to greater investment in, and amortisation of, video content.
- Cost of revenues for our other businesses increased by 27% to RMB7,492 million for the second quarter of 2017. The increase was mainly driven by greater costs in payment related services as well as TV drama and movie investments.

<sup>3</sup> Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 34% to RMB6,332 million and brand display advertising revenues increased by 78% to RMB3,816 million on a quarter-on-quarter basis.

## Management Discussion and Analysis

*Selling and marketing expenses.* Selling and marketing expenses increased by 16% to RMB3,660 million for the second quarter of 2017 on a quarter-on-quarter basis. The increase mainly reflected seasonally more advertising and promotional activities in the second quarter than the first quarter.

*General and administrative expenses.* General and administrative expenses increased by 17% to RMB8,170 million for the second quarter of 2017 on a quarter-on-quarter basis. The increase was primarily driven by greater research and development expenses and staff costs.

*Share of profit/(losses) of associates and joint ventures.* We recorded share of profit of associates and joint ventures of RMB498 million for the second quarter of 2017, compared to share of losses of RMB375 million for the first quarter of 2017. The change mainly reflected one-off gains recognised by investee companies and higher profit arising from our certain investee companies in the second quarter of 2017.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased by 26% to RMB18,231 million for the second quarter of 2017 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 15% to RMB16,391 million.

### OTHER FINANCIAL INFORMATION

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June	31 March	30 June	30 June	30 June
	2017	2017	2016	2017	2016
	(RMB in millions, unless specified)				
EBITDA (a)	<b>22,427</b>	19,995	15,581	<b>42,422</b>	29,910
Adjusted EBITDA (a)	<b>23,802</b>	21,300	16,401	<b>45,102</b>	31,405
Adjusted EBITDA margin (b)	<b>42%</b>	43%	46%	<b>42%</b>	46%
Interest expense	<b>760</b>	667	494	<b>1,427</b>	971
Net cash (c)	<b>21,267</b>	27,572	24,037	<b>21,267</b>	24,037
Capital expenditures (d)	<b>3,010</b>	2,108	1,505	<b>5,118</b>	5,610

Note:

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

## Management Discussion and Analysis

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

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June 2017	31 March 2017	30 June 2016	30 June 2017	30 June 2016
	(RMB in millions, unless specified)				
Operating profit	<b>22,560</b>	19,272	14,329	<b>41,832</b>	27,727
Adjustments:					
Interest income	<b>(959)</b>	(808)	(626)	<b>(1,767)</b>	(1,329)
Other (gains)/losses, net	<b>(5,125)</b>	(3,191)	(911)	<b>(8,316)</b>	(1,417)
Depreciation of property, plant and equipment and investment properties	<b>1,158</b>	1,083	907	<b>2,241</b>	1,776
Amortisation of intangible assets	<b>4,793</b>	3,639	1,882	<b>8,432</b>	3,153
EBITDA	<b>22,427</b>	19,995	15,581	<b>42,422</b>	29,910
Equity-settled share-based compensation	<b>1,375</b>	1,305	820	<b>2,680</b>	1,495
Adjusted EBITDA	<b>23,802</b>	21,300	16,401	<b>45,102</b>	31,405

### NON-GAAP FINANCIAL MEASURES

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain 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 second quarter of 2017 and 2016, the first quarter of 2017, and the first half of 2017 and 2016 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 30 June 2017						
	Adjustments					Non-GAAP
	As reported	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	22,560	1,408	(5,619)	115	1,572	20,036
Profit for the period	18,254	1,553	(5,691)	472	1,899	16,487
Profit attributable to equity holders	18,231	1,492	(5,670)	439	1,899	16,391
EPS (RMB per share)						
– basic	1.939					1.743
– diluted	1.914					1.721
Operating margin	40%					35%
Net margin	32%					29%

Unaudited three months ended 31 March 2017						
	Adjustments					Non-GAAP
	As reported	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	19,272	1,339	(2,747)	153	503	18,520
Profit for the period	14,548	1,530	(2,717)	500	511	14,372
Profit attributable to equity holders	14,476	1,483	(2,717)	458	511	14,211
EPS (RMB per share)						
– basic	1.540					1.512
– diluted	1.522					1.494
Operating margin	39%					37%
Net margin	29%					29%

## Management Discussion and Analysis

Unaudited three months ended 30 June 2016

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)					
Operating profit	14,329	862	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,056	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	1,037	(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 six months ended 30 June 2017

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

## Management Discussion and Analysis

Unaudited six months ended 30 June 2016

	Adjustments					Non-GAAP
	As reported	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	1,569	(3,718)	96	2,497	28,171
Profit for the period	20,148	1,954	(4,037)	684	2,881	21,630
Profit attributable to equity holders	19,920	1,926	(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%

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals, disposals of investee companies and businesses, and fair value changes arising from investments
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, 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 2017 and 31 March 2017 are as follows:

	<b>Unaudited 30 June 2017</b>	Unaudited 31 March 2017
	(RMB in millions)	
Cash and cash equivalents	<b>70,301</b>	68,861
Term deposits and others	<b>67,558</b>	72,995
	<b>137,859</b>	141,856
Borrowings	<b>(81,239)</b>	(74,824)
Notes payable	<b>(35,353)</b>	(39,460)
Net cash	<b>21,267</b>	27,572

As at 30 June 2017, the Group had net cash of RMB21,267 million. The sequential decrease in net cash mainly reflected payment of our final dividend for the year ended 31 December 2016. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB146 billion as at 30 June 2017.

As at 30 June 2017, RMB42,253 million of our financial resources (cash and cash equivalents, as well as term deposits and others, such as treasury investments with high liquidity) were denominated in non-RMB currencies.

For the second quarter of 2017, the Group had free cash flow of RMB17,511 million. This was a result of net cash flow generated from operating activities of RMB20,468 million, offset by payments for capital expenditure of RMB2,957 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 22 to 72, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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

### CONCLUSION

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

#### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 16 August 2017

## Consolidated Income Statement

For the three and six months ended 30 June 2017

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017 RMB'Million	2016 RMB'Million	2017 RMB'Million	2016 RMB'Million
<b>Revenues</b>					
Value-added services		36,804	25,680	71,912	50,644
Online advertising		10,148	6,532	17,036	11,233
Others		9,654	3,479	17,210	5,809
		<b>56,606</b>	35,691	<b>106,158</b>	67,686
Cost of revenues	8	<b>(28,300)</b>	(15,235)	<b>(52,409)</b>	(28,641)
<b>Gross profit</b>		<b>28,306</b>	20,456	<b>53,749</b>	39,045
Interest income		959	626	1,767	1,329
Other gains, net	7	5,125	911	8,316	1,417
Selling and marketing expenses	8	<b>(3,660)</b>	(2,365)	<b>(6,818)</b>	(4,397)
General and administrative expenses	8	<b>(8,170)</b>	(5,299)	<b>(15,182)</b>	(9,667)
<b>Operating profit</b>		<b>22,560</b>	14,329	<b>41,832</b>	27,727
Finance costs, net	9	<b>(834)</b>	(377)	<b>(1,525)</b>	(868)
Share of profit/(losses) of associates and joint ventures		498	(292)	123	(1,381)
<b>Profit before income tax</b>		<b>22,224</b>	13,660	<b>40,430</b>	25,478
Income tax expense	10	<b>(3,970)</b>	(2,780)	<b>(7,628)</b>	(5,330)
<b>Profit for the period</b>		<b>18,254</b>	10,880	<b>32,802</b>	20,148
<b>Attributable to:</b>					
Equity holders of the Company		18,231	10,737	32,707	19,920
Non-controlling interests		23	143	95	228
		<b>18,254</b>	10,880	<b>32,802</b>	20,148
<b>Earnings per share for profit attributable to equity holders of the Company (in RMB per share)</b>					
– basic	11	<b>1.939</b>	1.146	<b>3.480</b>	2.128
– diluted	11	<b>1.914</b>	1.133	<b>3.436</b>	2.102

The accompanying notes on pages 31 to 72 form an integral part of this interim financial information.

## Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2017

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>Profit for the period</b>	<b>18,254</b>	10,880	<b>32,802</b>	20,148
<b>Other comprehensive income, net of tax:</b>				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive income of associates	66	277	177	285
Net gains from changes in fair value of available-for-sale financial assets	10,190	4,979	17,416	3,326
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	79	(1,832)	79
Currency translation differences	(3,232)	1,308	(4,217)	1,094
Other fair value losses	(162)	(182)	(103)	(321)
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Other fair value losses	(47)	(66)	(390)	(328)
	<b>6,815</b>	6,395	<b>11,051</b>	4,135
<b>Total comprehensive income for the period</b>	<b>25,069</b>	17,275	<b>43,853</b>	24,283
<b>Attributable to:</b>				
Equity holders of the Company	25,063	17,116	43,780	24,036
Non-controlling interests	6	159	73	247
	<b>25,069</b>	17,275	<b>43,853</b>	24,283

The accompanying notes on pages 31 to 72 form an integral part of this interim financial information.

# Consolidated Statement of Financial Position

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'Million	Audited 31 December 2016 RMB'Million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	15,874	13,900
Construction in progress	13	5,346	4,674
Investment properties	13	846	854
Land use rights	13	5,165	5,174
Intangible assets	13	38,891	36,467
Investments in associates	14	74,202	70,042
Investments in redeemable instruments of associates	15	23,789	9,627
Investments in joint ventures		715	630
Available-for-sale financial assets	16	107,117	83,806
Prepayments, deposits and other assets	17	8,261	7,363
Other financial assets	18	4,033	1,760
Deferred income tax assets	19	8,076	7,033
Term deposits		5,364	5,415
		<b>297,679</b>	<b>246,745</b>
<b>Current assets</b>			
Inventories		297	263
Accounts receivable	20	14,448	10,152
Prepayments, deposits and other assets	17	18,013	14,118
Other financial assets	18	1,974	1,649
Term deposits		61,474	50,320
Restricted cash		1,327	750
Cash and cash equivalents		70,301	71,902
		<b>167,834</b>	<b>149,154</b>
<b>Total assets</b>		<b>465,513</b>	<b>395,899</b>

# Consolidated Statement of Financial Position

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'Million	Audited 31 December 2016 RMB'Million
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	21	–	–
Share premium		19,793	17,324
Shares held for share award schemes		(3,513)	(3,136)
Other reserves		33,996	23,693
Retained earnings		164,398	136,743
		<b>214,674</b>	174,624
<b>Non-controlling interests</b>		<b>11,724</b>	11,623
<b>Total equity</b>		<b>226,398</b>	186,247
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	70,460	57,549
Notes payable	27	31,294	36,204
Long-term payables	25	4,459	4,935
Other financial liabilities		2,468	2,576
Deferred income tax liabilities	19	5,171	5,153
Deferred revenue		1,886	2,038
		<b>115,738</b>	108,455



## Consolidated Statement of Financial Position

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'Million	Audited 31 December 2016 RMB'Million
<b>Current liabilities</b>			
Accounts payable	23	36,982	27,413
Other payables and accruals	24	21,224	20,873
Borrowings	26	10,779	12,278
Notes payable	27	4,059	3,466
Current income tax liabilities		6,332	5,219
Other tax liabilities		1,041	745
Deferred revenue		42,960	31,203
		<b>123,377</b>	101,197
<b>Total liabilities</b>		<b>239,115</b>	209,652
<b>Total equity and liabilities</b>		<b>465,513</b>	395,899

The accompanying notes on pages 31 to 72 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 2017

	Unaudited							Total equity RMB'Million
	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	
<b>Balance at 1 January 2017</b>	–	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247
<b>Comprehensive income</b>								
Profit for the period	–	–	–	–	32,707	32,707	95	32,802
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates	–	–	–	177	–	177	–	177
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	17,416	–	17,416	–	17,416
– transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(1,832)	–	(1,832)	–	(1,832)
– currency translation differences	–	–	–	(4,195)	–	(4,195)	(22)	(4,217)
– other fair value losses, net	–	–	–	(493)	–	(493)	–	(493)
<b>Total comprehensive income for the period</b>	–	–	–	11,073	32,707	43,780	73	43,853
<b>Transactions with equity holders</b>								
Capital injection	–	–	–	–	–	–	209	209
Employee share option schemes:								
– value of employee services	–	394	–	101	–	495	60	555
– proceeds from shares issued	–	82	–	–	–	82	–	82
Employee share award schemes:								
– value of employee services	–	1,868	–	215	–	2,083	47	2,130
– shares withheld for share award schemes	–	–	(664)	–	–	(664)	–	(664)
– vesting of awarded shares	–	(287)	287	–	–	–	–	–
Tax benefit from share-based payments of a subsidiary	–	–	–	118	–	118	–	118
Dividends (Note 12)	–	–	–	–	(5,052)	(5,052)	(461)	(5,513)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	412	–	(636)	–	(224)	(262)	(486)
Disposal of subsidiaries	–	–	–	–	–	–	(133)	(133)
Partial disposal of equity interests in subsidiaries	–	–	–	(103)	–	(103)	103	–
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(465)	–	(465)	465	–
<b>Total transactions with equity holders at their capacity as equity holders for the period</b>	–	2,469	(377)	(770)	(5,052)	(3,730)	28	(3,702)
<b>Balance at 30 June 2017</b>	–	19,793	(3,513)	33,996	164,398	214,674	11,724	226,398

## Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	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
<b>Balance at 1 January 2016</b>	–	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100
<b>Comprehensive income</b>								
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, net	–	–	–	(649)	–	(649)	–	(649)
<b>Total comprehensive income for the period</b>	–	–	–	4,116	19,920	24,036	247	24,283
<b>Transactions with equity holders</b>								
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)
Disposal of a subsidiary	–	–	–	–	–	–	(2)	(2)
Partial disposal of equity interests in subsidiaries	–	–	–	109	–	109	125	234
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(501)	–	(501)	501	–
<b>Total transactions with equity holders at their capacity as equity holders for the period</b>	–	2,452	(608)	(905)	(3,740)	(2,801)	539	(2,262)
<b>Balance at 30 June 2016</b>	–	14,619	(2,425)	12,884	116,192	141,270	2,851	144,121

The accompanying notes on pages 31 to 72 form an integral part of this interim financial information.

## Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'Million	RMB'Million
<b>Cash flows from operating activities</b>		
Cash generated from operations	<b>54,533</b>	34,978
Income tax paid	<b>(7,451)</b>	(6,129)
	<b>47,082</b>	28,849
<b>Cash flows from investing activities</b>		
Payments for business combinations, net of cash acquired	–	(113)
Net inflow of cash in respect of disposals of subsidiaries	<b>6</b>	216
Purchase of property, plant and equipment, construction in progress and investment properties	<b>(5,021)</b>	(3,357)
Payments for acquisition of investments in associates	<b>(4,596)</b>	(3,869)
Proceeds from disposals of investments in associates	<b>284</b>	193
Payments for acquisition of investments in redeemable instruments of associates	<b>(14,229)</b>	(1,645)
Proceeds from disposals of investments in redeemable instruments of associates	–	32
Payments for acquisition of investments in joint ventures	<b>(78)</b>	(33)
Proceeds from disposals of investments in joint ventures	<b>9</b>	–
Purchase of/Prepayment for intangible assets	<b>(7,173)</b>	(3,688)
Purchase of/Prepayment for land use rights	<b>(46)</b>	(1,506)
Payments for investments in available-for-sale financial assets	<b>(12,004)</b>	(6,804)
Proceeds from disposals of available-for-sale financial assets	<b>3,154</b>	–
Payments for loans to investees and others	<b>(1,111)</b>	(558)
Proceeds from settlement of loans to investees and others	<b>731</b>	2,026
Payments for acquisition of other financial assets	<b>(994)</b>	–
Proceeds from settlement of other financial assets	<b>274</b>	–
Placement of term deposits with initial terms of over three months	<b>(38,938)</b>	(25,056)
Receipt from maturity of term deposits with initial terms of over three months	<b>27,784</b>	21,253
Interest received	<b>833</b>	1,078
Dividends received	<b>782</b>	139
	<b>(50,333)</b>	(21,692)
Net cash flows used in investing activities		

## Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'Million	RMB'Million
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	5,418	–
Repayment of short-term borrowings	(6,520)	(977)
Proceeds from long-term borrowings	19,092	26,218
Repayment of long-term borrowings	(5,270)	(7,225)
Repayment of notes payable	(3,450)	–
Repayment of convertible bonds	–	(494)
Proceeds from issuance of ordinary shares	82	120
Shares withheld for share award schemes	(664)	(792)
Proceeds from capital injection from non-controlling interests	206	242
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	(793)	(149)
Dividends paid to the Company's shareholders	(5,052)	(3,716)
Dividends paid to non-controlling interests	(459)	(523)
	<u>2,590</u>	<u>12,704</u>
Net cash flows generated from financing activities	2,590	12,704
<b>Net (decrease)/increase in cash and cash equivalents</b>	(661)	19,861
Cash and cash equivalents at beginning of the period	71,902	43,438
Exchange (losses)/gains on cash and cash equivalents	(940)	907
	<u>70,301</u>	<u>64,206</u>
<b>Cash and cash equivalents at end of the period</b>	70,301	64,206
<b>Analysis of balances of cash and cash equivalents:</b>		
Bank balances and cash	31,527	38,640
Term deposits and highly liquid investments with initial terms within three months	38,774	25,566
	<u>70,301</u>	<u>64,206</u>

The accompanying notes on pages 31 to 72 form an integral part of this interim financial information.

# Notes to the Interim Financial Information

## 1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of value-added services (“VAS”) and online advertising services to users in the People’s Republic of China (the “PRC”).

The condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2017, the related consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

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

## 2 BASIS OF PREPARATION AND PRESENTATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’ issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2016 annual report of the Company dated 22 March 2017 (the “2016 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 2016 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, financial assets at fair value through profit or loss and derivative financial instruments, which are carried at fair values.

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

## Notes to the Interim Financial Information

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Amendments to standards adopted by the Group

Amendments to IFRS effective for the financial year ending 31 December 2017 do not have a material impact on the Group's Interim Financial Information.

#### (b) New standards and amendments to standards that have been issued but not effective

A number of new standards and amendments to standards have not come into effect for the financial year beginning 1 January 2017, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except as set out below:

(i) IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" replaces IAS 18 "Revenue", IAS 11 "Construction contracts" and related interpretations. Revenue is recognised when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. This standard is effective for annual periods beginning on or after 1 January 2018 and earlier adoption is permitted. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying IFRS 15 on the Group's consolidated financial statements and has identified that the application of this new standard may affect the measurement and timing of recognition of revenues as a result of identification of different performance obligations and behaviors of different customer portfolios.

(ii) IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

# Notes to the Interim Financial Information

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) New standards and amendments to standards that have been issued but not effective (continued)

#### (ii) IFRS 9 “Financial instruments” (continued)

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Investments in equity instruments are always measured at fair value, however, management can make an irrevocable election to present changes in fair value in other comprehensive income without recycling, provided the instrument is not held for trading. While management of the Group has just commenced an assessment on the classification and measurement of its financial assets, the potential impact to the future financial statements has yet to be determined but management considers that certain investments in equity instruments currently classified as available-for-sale financial assets and investments in debt instruments currently classified as investments in redeemable instruments of associates might fall within the classification as at fair value through profit or loss, hence, there might be a change to the accounting of these assets.

According to preliminary assessment, there will be no material impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss.

The derecognition rules have been transferred from IAS 39 “Financial Instruments: Recognition and Measurement” and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s established risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, given the standard introduces a more principle-based approach. Nevertheless, the Group has not yet undertaken a detailed assessment but management expects that the Group’s current hedge relationships might likely be qualified as continuing hedges upon the adoption of IFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 “Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, management expects it might result in an earlier recognition of credit losses.



## Notes to the Interim Financial Information

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) New standards and amendments to standards that have been issued but not effective (continued)

##### (ii) IFRS 9 “Financial instruments” (continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. The Group does not intend to adopt this standard before its mandatory effective date.

##### (iii) IFRS 16 “Lease”

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

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group’s operating leases. However, the Group has just commenced its assessment and has not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.

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

### 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 2016 Financial Statements.

## Notes to the Interim Financial Information

### 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 2016 Financial Statements.

There were no changes in any material risk management policies during the six months ended 30 June 2017.

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 2017, the Group's major monetary assets and liabilities which are exposed to foreign exchange risk, are listed as below:

	<b>USD denominated RMB'Million</b>	<b>Non-USD denominated RMB'Million</b>
<b>As at 30 June 2017</b>		
Monetary assets, current	11,129	4,602
Monetary assets, non-current	591	–
Monetary liabilities, current	(2,820)	(5,874)
Monetary liabilities, non-current	(44)	(6,204)
	<u>8,856</u>	<u>(7,476)</u>
<b>As at 31 December 2016</b>		
Monetary assets, current	8,606	1,035
Monetary liabilities, current	(3,365)	(177)
Monetary liabilities, non-current	(276)	(5,470)
	<u>4,965</u>	<u>(4,612)</u>

During the three and six months ended 30 June 2017, the Group reported exchange losses of RMB74 million and RMB98 million, respectively (three and six months ended 30 June 2016: exchange gains of RMB117 million and RMB103 million, respectively) (Note 9), within "Finance costs, net" in the consolidated income statement.

## Notes to the Interim Financial Information

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### (b) Capital risk management

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

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

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	(RMB in million, unless specified)	
Borrowings	<b>81,239</b>	69,827
Notes payable	<b>35,353</b>	39,670
Total debts	<b>116,592</b>	109,497
Adjusted EBITDA for the twelve months ended 30 June 2017/31 December 2016 (Note)	<b>80,560</b>	66,863
Total debts/Adjusted EBITDA ratio	<b>1.45</b>	1.64

Note:

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

## 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 2017 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
<b>As at 30 June 2017</b>				
Available-for-sale financial assets	39,267	478	67,372	107,117
Other financial assets	–	589	5,418	6,007
Other financial liabilities	–	–	2,468	2,468
<b>As at 31 December 2016</b>				
Available-for-sale financial assets	19,995	508	63,303	83,806
Other financial assets	–	1,113	2,296	3,409
Other financial liabilities	–	–	2,576	2,576

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.

## Notes to the Interim Financial Information

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### (c) Fair value estimation (continued)

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

Specific valuation techniques used to value financial instruments include:

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

During the six months ended 30 June 2017, there were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 financial instruments for the six months ended 30 June 2017 and 2016:

	Financial assets		Financial liabilities	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Opening balance	<b>65,599</b>	27,947	<b>2,576</b>	588
Additions	<b>5,756</b>	5,035	–	–
Disposals and transfers/settlements	<b>(4,310)</b>	93	–	(491)
Changes in fair value	<b>7,832</b>	4,465	<b>(44)</b>	(98)
Impairment provision	<b>(506)</b>	(371)	–	–
Currency translation differences	<b>(1,581)</b>	695	<b>(64)</b>	1
	<b>72,790</b>	37,864	<b>2,468</b>	–

## Notes to the Interim Financial Information

### 5 FINANCIAL RISK MANAGEMENT (continued)

#### (c) Fair value estimation (continued)

Valuation processes of the Group (Level 3)

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

The components of the level 3 instruments mainly include investments in private investment funds and unlisted companies, other financial instruments and convertible bonds. As these instruments are not traded in an active market, their fair values have been determined using various applicable valuation techniques, including discounted cash flows, 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. Other financial liabilities included guarantees provided by the Group on certain put arrangements of an investee company and put options issued by the Group to certain investors of an investee company, under a pre-determined pricing formula. The fair values of these instruments determined by the Group require significant judgement, including the likelihood of non-performing by the investee company, financial performance of the investee company, market value of comparable companies as well as discount rate, etc.

## Notes to the Interim Financial Information

### 6 SEGMENT INFORMATION

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

The Group has following reportable segments for the three and six months ended 30 June 2017 and 2016:

- VAS;
- Online advertising; and
- Others.

"Others" primarily comprises payment related services, cloud services and other services.

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

There were no material inter-segment sales during the three and six months ended 30 June 2017 and 2016. 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 2017 and 2016 is as follows:

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

	Unaudited			
	Three months ended 30 June 2016			
	VAS	Online	Others	Total
	RMB'Million	advertising	RMB'Million	RMB'Million
		RMB'Million	RMB'Million	RMB'Million
Segment revenues	25,680	6,532	3,479	35,691
Gross profit	17,130	2,957	369	20,456
Depreciation	450	49	121	620
Amortisation	387	1,384	–	1,771



## Notes to the Interim Financial Information

### 6 SEGMENT INFORMATION (continued)

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

	Unaudited			
	Six months ended 30 June 2016			
	VAS	Online	Others	Total
	RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>50,644</u>	<u>11,233</u>	<u>5,809</u>	<u>67,686</u>
Gross profit	<u>33,504</u>	<u>5,009</u>	<u>532</u>	<u>39,045</u>
Depreciation	897	96	229	1,222
Amortisation	<u>876</u>	<u>2,056</u>	–	<u>2,932</u>

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

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the three and six months ended 30 June 2017 and 2016.

## Notes to the Interim Financial Information

### 7 OTHER GAINS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Gains on disposals and deemed disposals of investee companies (Note (a))	<b>3,132</b>	2,327	<b>5,860</b>	3,060
Fair value gains on other financial instruments (Note 18)	<b>2,487</b>	663	<b>2,506</b>	658
Impairment provision for investee companies and intangible assets from acquisitions (Note (b))	<b>(1,572)</b>	(2,437)	<b>(2,075)</b>	(2,497)
Subsidies and tax rebates	<b>1,014</b>	154	<b>1,818</b>	286
Dividend income	<b>97</b>	33	<b>773</b>	51
Donations to Tencent Charity Fund	<b>–</b>	–	<b>(550)</b>	(350)
Others	<b>(33)</b>	171	<b>(16)</b>	209
	<b>5,125</b>	911	<b>8,316</b>	1,417

Note:

(a) The disposal and deemed disposal gains during the six months ended 30 June 2017 mainly comprised the following:

- a gain of approximately RMB2,109 million on dilution of the Group's equity interests in an associate which is a mobile game company as a result of new shares issued by this associate upon its initial public offering (Note 14);
- net gains of approximately RMB291 million on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 14). These associates are principally engaged in Internet-related business; and
- aggregate net gains of approximately RMB3,460 million on disposals, acquisitions achieved in stages or partial disposals of various investments of the Group.

## Notes to the Interim Financial Information

### 7 OTHER GAINS, NET (continued)

Note: (continued)

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 RMB'Million	2016 RMB'Million	2017 RMB'Million	2016 RMB'Million
Investments in associates (Note 14)	759	1,651	790	1,678
Investments in redeemable instruments of associates (Note 15)	454	90	560	123
Available-for-sale financial assets (Note 16)	230	690	596	690
Others	129	6	129	6
	<b>1,572</b>	<b>2,437</b>	<b>2,075</b>	<b>2,497</b>

### 8 EXPENSES BY NATURE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017 RMB'Million	2016 RMB'Million	2017 RMB'Million	2016 RMB'Million
Employee benefits expenses (Note (a))	8,594	5,426	16,017	10,205
Content costs and agency fees (excluding amortisation of intangible assets)	8,010	4,945	15,613	10,220
Channel costs	3,656	1,961	6,702	3,548
Bandwidth and server custody fees	2,660	1,869	5,091	3,572
Promotion and advertising expenses	2,723	1,701	5,048	3,117
Operating lease rentals in respect of office buildings	319	275	625	518
Travelling and entertainment expenses	246	176	440	341
Amortisation of intangible assets (Note (b) and Note 13)	4,793	1,882	8,432	3,153
Depreciation of property, plant and equipment (Note 13)	1,151	903	2,227	1,771

## Notes to the Interim Financial Information

### 8 EXPENSES BY NATURE (continued)

Note:

- (a) During the three and six months ended 30 June 2017, the Group incurred expenses for the purpose of research and development of approximately RMB4,241 million and RMB7,838 million, respectively (three and six months ended 30 June 2016: RMB2,746 million and RMB5,079 million, respectively), which comprised employee benefits expenses of RMB3,686 million and RMB6,667 million, respectively (three and six months ended 30 June 2016: RMB2,116 million and RMB3,976 million, respectively).

No significant development expenses had been capitalised for the three and six months ended 30 June 2017 and 2016.

- (b) Mainly included amortisation charge of intangible assets in respect of media contents and game licences.

### 9 FINANCE COSTS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Interest and related expenses	<b>760</b>	494	<b>1,427</b>	971
Exchange losses/(gains)	<b>74</b>	(117)	<b>98</b>	(103)
	<b>834</b>	377	<b>1,525</b>	868

Interest and related expenses mainly arose from the borrowings and notes payable disclosed in Notes 26 and 27.

# Notes to the Interim Financial Information

## 10 TAX EXPENSE

### (a) Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and six months ended 30 June 2017 and 2016.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the three and six months ended 30 June 2017 and 2016.

(iii) PRC corporate income tax

PRC corporate income tax has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits and the estimated assessable profits of entities within the Group established in the PRC for the three and six months ended 30 June 2017 and 2016. The general PRC corporate income tax rate is 25% for the three and six months ended 30 June 2017 and 2016.

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 corporate income tax rate of 15% for the three and six months ended 30 June 2017 and 2016. Meanwhile certain subsidiaries of the Company were in the process of renewing such entitlements by applying to the relevant government authorities as at 30 June 2017. The directors of the Company expect that they will continue to be approved as High and New Technology Enterprises. As such, corporate income tax rate of 15% was adopted by these subsidiaries in accruing their corporate income tax liabilities for the three and six months ended 30 June 2017.

In addition, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, software enterprise that is entitled to the preferential tax rate of 10% as a national key software enterprise shall file its status with tax authorities for record in accordance with the relevant requirements upon the time of final tax settlement each year. The filing records will be subject to verification by relevant government authorities. Accordingly, PRC corporate income tax for the relevant subsidiaries of the Company applying for this preferential tax treatment has been provided for at their respective prevailing tax rates during the period. Upon completion of the verification process, the relevant subsidiaries of the Company will be entitled to corporate income tax rate of 10% and corresponding tax adjustments will be accounted for.

## Notes to the Interim Financial Information

### 10 TAX EXPENSE (continued)

#### (a) Income tax expense (continued)

##### (iii) PRC corporate income tax (continued)

Moreover, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Company are entitled to other tax concessions and they are exempt from corporate income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing 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

Income tax on profits arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profits for the three and six months ended 30 June 2017 and 2016 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 36%.

##### (v) Withholding tax

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

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

The income tax expense of the Group for the three and six months ended 30 June 2017 and 2016 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current income tax	3,824	2,902	7,516	5,262
Deferred income tax (Note 19)	146	(122)	112	68
	<u>3,970</u>	<u>2,780</u>	<u>7,628</u>	<u>5,330</u>

## Notes to the Interim Financial Information

### 10 TAX EXPENSE (continued)

#### (a) Income tax expense (continued)

The taxation 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 2017 and 2016, being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	Unaudited		Unaudited	
	Three months ended 30 June	2016	Six months ended 30 June	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit before income tax	<b>22,224</b>	13,660	<b>40,430</b>	25,478
Share of (profit)/losses of associates and joint ventures	<b>(498)</b>	292	<b>(123)</b>	1,381
	<b>21,726</b>	13,952	<b>40,307</b>	26,859
Tax calculated at a tax rate of 25%	<b>5,432</b>	3,488	<b>10,077</b>	6,715
Effects of different tax rates applicable to different subsidiaries of the Group	<b>(2,243)</b>	(1,357)	<b>(4,074)</b>	(2,203)
Effects of tax holiday on assessable profits of certain subsidiaries	<b>(180)</b>	(136)	<b>(304)</b>	(246)
Expenses not deductible for tax purposes	<b>252</b>	257	<b>600</b>	429
Withholding tax on earnings expected to be remitted by PRC subsidiaries	<b>700</b>	400	<b>1,050</b>	400
Unrecognised deferred income tax assets	<b>186</b>	221	<b>463</b>	328
Income not subject to tax	<b>(14)</b>	(2)	<b>(21)</b>	(2)
Others	<b>(163)</b>	(91)	<b>(163)</b>	(91)
Income tax expense	<b>3,970</b>	2,780	<b>7,628</b>	5,330

## Notes to the Interim Financial Information

### 10 TAX EXPENSE (continued)

#### (b) Value-added tax and other taxes

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

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

### 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 Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
Profit attributable to equity holders of the Company (RMB' Million)	<u>18,231</u>	<u>10,737</u>	<u>32,707</u>	<u>19,920</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,403</u>	<u>9,369</u>	<u>9,400</u>	<u>9,363</u>
Basic EPS (RMB per share)	<u>1.939</u>	<u>1.146</u>	<u>3.480</u>	<u>2.128</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 2017 and 2016, these share options, 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	
	2017	2016	2017	2016
Profit attributable to equity holders of the Company (RMB'Million)	<u>18,231</u>	<u>10,737</u>	<u>32,707</u>	<u>19,920</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,403</u>	9,369	<u>9,400</u>	9,363
Adjustments for share options and awarded shares (million shares)	<u>121</u>	<u>111</u>	<u>120</u>	<u>112</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,524</u>	<u>9,480</u>	<u>9,520</u>	<u>9,475</u>
Diluted EPS (RMB per share)	<u>1.914</u>	<u>1.133</u>	<u>3.436</u>	<u>2.102</u>

### 12 DIVIDENDS

A final dividend in respect of the year ended 31 December 2016 of HKD0.61 per share (2015: HKD0.47 per share) was proposed pursuant to a resolution passed by the Board on 22 March 2017 and approved by the shareholders of the Company at the annual general meeting held on 17 May 2017. Such dividend amounting to RMB5,052 million (final dividend for 2015: RMB3,716 million) was paid before 30 June 2017.

The Board did not declare any interim dividend for the six months ended 30 June 2017 and 2016.

## Notes to the Interim Financial Information

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

	Unaudited				
	Property, plant and equipment	Construction in progress	Investment properties	Land use rights	Intangible assets
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
<b>Net book amount at 1 January 2017</b>	<b>13,900</b>	<b>4,674</b>	<b>854</b>	<b>5,174</b>	<b>36,467</b>
Business combinations	–	–	–	–	8
Additions	3,911	1,001	–	46	11,088
Transfers	322	(328)	6	–	–
Disposals	(21)	–	–	–	(25)
Depreciation/Amortisation	(2,227)	–	(14)	(55)	(8,432)
Impairment	(4)	–	–	–	(129)
Currency translation differences	(7)	(1)	–	–	(86)
<b>Net book amount at 30 June 2017</b>	<b>15,874</b>	<b>5,346</b>	<b>846</b>	<b>5,165</b>	<b>38,891</b>
<b>Net book amount at 1 January 2016</b>	<b>9,973</b>	<b>4,248</b>	<b>292</b>	<b>2,293</b>	<b>13,439</b>
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
<b>Net book amount at 30 June 2016</b>	<b>11,469</b>	<b>4,066</b>	<b>710</b>	<b>4,066</b>	<b>14,190</b>

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

Except for certain insignificant amounts of property, plant and equipment and intangible assets arising from acquisitions were impaired as at 30 June 2017, there was no indication of impairment for property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets during the three and six months ended 30 June 2017.

## Notes to the Interim Financial Information

### 14 INVESTMENTS IN ASSOCIATES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
Investments in associates		
– Listed entities (Note)	<b>43,029</b>	38,516
– Unlisted entities	<b>31,173</b>	31,526
	<b><u>74,202</u></b>	<u>70,042</u>

Note:

As at 30 June 2017, the fair value of the investments in associates which are listed entities was RMB106,067 million (31 December 2016: RMB68,565 million).

Movement of investments in associates is analysed as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
At beginning of period	<b>70,042</b>	60,171
Additions (Note (a))	<b>5,234</b>	3,878
Deemed disposal gains (Note 7(a))	<b>2,400</b>	1,926
Share of profit/(losses)	<b>97</b>	(1,385)
Share of other comprehensive income	<b>177</b>	285
Dividends	<b>(4)</b>	(87)
Disposals and transfers	<b>186</b>	(118)
Impairment provision (Note (b))	<b>(790)</b>	(1,678)
Currency translation differences	<b>(3,140)</b>	1,100
	<b><u>74,202</u></b>	<u>64,092</u>
At end of period	<b><u>74,202</u></b>	<u>64,092</u>

## Notes to the Interim Financial Information

### 14 INVESTMENTS IN ASSOCIATES (continued)

Note:

- (a) The Group acquired certain associates and made additional investments in existing associates with an aggregate amount of RMB5,234 million during the six months ended 30 June 2017.
- (b) During the six months ended 30 June 2017, the Group made an aggregate impairment provision of RMB790 million against the carrying amounts of certain investments in associates. The impairment loss mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

Management has assessed the level of influence that the Group exercises on certain associates with shareholding below 20% and with a total carrying amount of RMB46,173 million as at 30 June 2017 (31 December 2016: RMB37,131 million). Management determined that it has significant influence on those associates through the board representation or other arrangements made. Consequently, these investments have been classified as associates.

#### Transactions with associates

- (a) Transactions related to online services

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

The revenues recorded by the Group from the aforesaid co-operation arrangements during the three and six months ended 30 June 2017 and 2016 were considered to be insignificant.

- (b) Other transactions

The Group placed certain deposits in the form of wealth management products with an associate in the ordinary course of business. During the three and six months ended and as at 30 June 2017, the balances of these deposits and interest income thereon were considered to be insignificant.

## Notes to the Interim Financial Information

### 15 INVESTMENTS IN REDEEMABLE INSTRUMENTS OF ASSOCIATES

As at 30 June 2017, the Group's investments in redeemable instruments of associates of RMB23,789 million (31 December 2016: RMB9,627 million) were stated at amortised cost less impairment provision. These investments mainly comprised investee companies that are principally engaged in online community services, online financing business, bike sharing service, online games development and other Internet-related businesses. The redemption prices of the relevant instruments are agreed at not less than their respective original subscription prices.

During the six months ended 30 June 2017, the Group made aggregate investments in redeemable instruments of associates of RMB15,220 million (six months ended 30 June 2016: RMB1,970 million), including certain additional investments in existing investees of the Group.

During the six months ended 30 June 2017, the Group also made an aggregate impairment provision of approximately RMB560 million (six months ended 30 June 2016: RMB123 million) against the carrying amounts of certain investments in redeemable instruments of associates based on the impairment assessment performed with reference to the business performances and recoverable amounts of these investee companies.

### 16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
Equity investments in listed entities	<b>39,719</b>	20,477
Equity investments in unlisted entities	<b>65,732</b>	62,580
Others	<b>1,666</b>	749
	<b>107,117</b>	83,806

## Notes to the Interim Financial Information

### 16 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
At beginning of period	<b>83,806</b>	44,339
Additions (Note (a) and (b))	<b>12,861</b>	7,220
Disposals and transfers	<b>(4,118)</b>	(8)
Changes in fair value (Note (c))	<b>17,445</b>	3,063
Impairment provision (Note (d))	<b>(596)</b>	(690)
Currency translation differences	<b>(2,281)</b>	903
	<b><u>107,117</u></b>	<u>54,827</u>
At end of period	<b>107,117</b>	54,827

Note:

- (a) During the six months ended 30 June 2017, the Group made additional investments of approximately USD1,183 million (equivalent to approximately RMB8,191 million) in an existing available-for-sale financial asset, which is a listed company in the United States principally engaged in the development and sales of electric vehicles, sustainable energy generation and storage equipment. As at 30 June 2017, the Group's equity interest in this investee accounted for approximately 5% of its total issued common stock.
- (b) During the six months ended 30 June 2017, the Group made certain new investments and additional investments with an aggregate amount of approximately RMB4,670 million in listed and unlisted entities mainly operated in the United States and the PRC. These companies are principally engaged in entertainment, technology, O2O and other Internet-related services.
- (c) Fair value gains of RMB17,445 million (six months ended 30 June 2016: RMB3,063 million) were recognised in other comprehensive income during the six months ended 30 June 2017 as a result of the changes in fair value of the available-for-sale financial assets.
- (d) The Group made an aggregate impairment provision of RMB596 million (six months ended 30 June 2016: RMB690 million) against the carrying amounts of certain available-for-sale financial assets during the six months ended 30 June 2017, with reference to their assessed fair values as at 30 June 2017.

## Notes to the Interim Financial Information

### 17 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
<b>Included in non-current assets:</b>		
Prepayment for media contents and game licences	<b>4,496</b>	3,942
Loans to investees and investees' shareholders (Note)	<b>1,786</b>	1,113
Running royalty fees for online games	<b>226</b>	685
Others	<b>1,753</b>	1,623
	<b>8,261</b>	7,363
<b>Included in current assets:</b>		
Prepayments and prepaid expenses	<b>5,558</b>	4,659
Running royalty fees for online games	<b>4,380</b>	2,506
Interest receivables	<b>3,226</b>	2,293
Loans to investees and investees' shareholders (Note)	<b>983</b>	1,679
Refundable value-added tax	<b>989</b>	260
Rental deposits and other deposits	<b>202</b>	199
Others	<b>2,675</b>	2,522
	<b>18,013</b>	14,118
	<b>26,274</b>	21,481

Note:

As at 30 June 2017, the balance of loans to investees and investees' shareholders are repayable within a period of one to nine years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 15.0% per annum (31 December 2016: not higher than 8.0% per annum).

As at 30 June 2017, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax) approximated their fair values. Deposits and other assets 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

Other financial assets were measured at their fair values.

#### **Included in non-current assets:**

As at 30 June 2017, the Group's non-current other financial assets comprised the embedded derivatives bifurcated from their host contracts (including the redemption options and conversion options bifurcated from their corresponding host components that were classified as available-for-sale financial assets and investments in redeemable instruments of associates), and interest rate swap contracts of RMB3,577 million and RMB456 million, respectively.

As at 30 June 2017, the aggregate notional principal amounts of the Group's outstanding interest rate swap contracts, which swap the floating interest rates into fixed interest rates, were USD8,351 million (equivalent to approximately RMB56,573 million). These interest rate swap contracts were qualified for hedge accounting.

#### **Included in current assets:**

As at 30 June 2017, the Group's current other financial assets comprised call option rights held by the Group which entitle it to acquire additional equity interests in certain investee companies of the Group and wealth management products held by the Group of RMB1,254 million and RMB720 million, respectively.



## Notes to the Interim Financial Information

### 19 DEFERRED INCOME TAXES

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

	<b>Deferred income tax assets RMB'Million</b>	<b>Unaudited Deferred income tax liabilities RMB'Million</b>	<b>Deferred income tax, net RMB'Million</b>
<b>At 1 January 2017</b>	<b>7,033</b>	<b>(5,153)</b>	<b>1,880</b>
Credit/(Charge) to consolidated income statement (Note 10)	1,073	(1,185)	(112)
Withholding tax paid in relation to the remittance of dividends	–	1,193	1,193
Credit/(Charge) to consolidated statement of changes in equity	3	(32)	(29)
Currency translation differences	(33)	6	(27)
<b>At 30 June 2017</b>	<b>8,076</b>	<b>(5,171)</b>	<b>2,905</b>
<b>At 1 January 2016</b>	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	2,057	–	2,057
Currency translation differences	–	(5)	(5)
<b>At 30 June 2016</b>	<b>4,739</b>	<b>(3,920)</b>	<b>819</b>

## Notes to the Interim Financial Information

### 20 ACCOUNTS RECEIVABLE

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
0 - 30 days	<b>5,902</b>	3,260
31 - 60 days	<b>4,578</b>	4,019
61 - 90 days	<b>2,150</b>	1,294
Over 90 days	<b>1,818</b>	1,579
	<b>14,448</b>	10,152

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

Receivable balances as at 30 June 2017 and 31 December 2016 mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators.

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

As at 30 June 2017, insignificant amounts of accounts receivable were past due and related impairment provision was recognised after assessment of the financial condition and credit quality with reference to the past history.

As at 30 June 2017, the carrying amounts of the accounts receivable approximated their fair values.

## Notes to the Interim Financial Information

### 21 SHARE CAPITAL

As at 30 June 2017 and 31 December 2016, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

Ordinary shares, issued and fully paid	Unaudited	
	Six months ended 30 June	
	2017	2016
At beginning of period	9,477,083,480	9,403,923,992
Issuance of shares under employee share option schemes	2,718,805	4,906,012
At end of period	9,479,802,285	9,408,830,004

As at 30 June 2017, the total number of issued ordinary shares of the Company included 74,308,369 shares (31 December 2016: 82,075,537 shares) held under the Share Award Schemes.

### 22 SHARE-BASED PAYMENTS

#### (a) Share option schemes

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

On 17 May 2017, a new share option scheme had been approved by the shareholders of the Company (“Post-IPO Option Scheme IV”). The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme IV shall not exceed 379,097,455 shares, representing 4% of the issued shares of the Company as at the date of shareholders’ approval of the Post-IPO Option Scheme IV (the “Scheme Mandate Limit”). Options lapsed in accordance with the terms of the Post-IPO Option Scheme IV shall not be counted for the purpose of calculating the 4% limit. The Company may refresh the Scheme Mandate Limit by an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit so refreshed shall not exceed 4% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme IV will expire no later than the last day of the 7-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme IV).

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

## Notes to the Interim Financial Information

### 22 SHARE-BASED PAYMENTS (continued)

#### (a) Share option schemes (continued)

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

#### (i) Movements in share options

No share options under the Post-IPO Option Scheme IV were granted during the six months ended 30 June 2017. Movements in the number of share options outstanding of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III for the six months ended 30 June 2017 and 2016 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
<b>At 1 January 2017</b>	<b>HKD120.95</b>	<b>31,247,436</b>	<b>HKD31.70</b>	<b>2,500,000</b>	<b>33,747,436</b>
Granted	HKD225.44	28,526,215	–	–	28,526,215
Exercised	HKD34.84	(2,718,805)	–	–	(2,718,805)
Lapsed	HKD116.62	(75,220)	–	–	(75,220)
<b>At 30 June 2017</b>	<b>HKD177.38</b>	<b>56,979,626</b>	<b>HKD31.70</b>	<b>2,500,000</b>	<b>59,479,626</b>
<b>Exercisable as at 30 June 2017</b>	<b>HKD114.53</b>	<b>13,108,559</b>	<b>HKD31.70</b>	<b>1,250,000</b>	<b>14,358,559</b>
<b>At 1 January 2016</b>	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)
<b>At 30 June 2016</b>	<b>HKD108.53</b>	<b>33,667,493</b>	<b>HKD31.70</b>	<b>2,500,000</b>	<b>36,167,493</b>
<b>Exercisable as at 30 June 2016</b>	<b>HKD75.13</b>	<b>10,620,554</b>	–	–	<b>10,620,554</b>

## Notes to the Interim Financial Information

### 22 SHARE-BASED PAYMENTS (continued)

#### (a) Share option schemes (continued)

##### (i) Movements in share options (continued)

During the six months ended 30 June 2017, 5,250,000 options were granted to one director of the Company (six months ended 30 June 2016: 3,750,000 options were granted to one director of the Company).

As a result of the options exercised during the six months ended 30 June 2017, 2,718,805 ordinary shares (six months ended 30 June 2016: 4,906,012 ordinary shares) were issued by the Company (Note 21). The weighted average price of the shares at the time these options were exercised was HKD267.20 per share (equivalent to approximately RMB234.13 per share) (six months ended 30 June 2016: HKD160.71 per share (equivalent to approximately RMB134.98 per share)).

##### (ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2017 and 31 December 2016 are as follows:

Expiry Date	Range of exercise price	No. of share options	
		30 June 2017	31 December 2016
7 years commencing from the date of grant of options (Post-IPO Option Scheme II)	HKD26.08-HKD49.76	2,491,575	5,005,325
	HKD112.30-HKD225.44	54,488,051	26,242,111
		<b>56,979,626</b>	31,247,436
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD31.70	2,500,000	2,500,000
		<b>59,479,626</b>	33,747,436

The outstanding share options as of 30 June 2017 were divided into two to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

## Notes to the Interim Financial Information

### 22 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 2017 was HKD67.79 per share (equivalent to approximately RMB60.09 per share) (six months ended 30 June 2016: HKD56.55 per share (equivalent to approximately RMB47.27 per share)).

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

	Unaudited Six months ended 30 June	
	2017	2016
Weighted average share price at the grant date	<b>HKD225.20</b>	HKD158.10
Risk free rate	<b>1.53%</b>	1.08%
Dividend yield	<b>0.34%</b>	0.33%
Expected volatility (Note)	<b>30.00%</b>	35.00%

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

### 22 SHARE-BASED PAYMENTS (continued)

#### (b) Share award schemes

The Company has adopted two share award schemes (the “Share Award Schemes”) as of 30 June 2017, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the six months ended 30 June 2017 and 2016 are as follows:

	No. of awarded shares
<b>At 1 January 2017</b>	<b>86,365,812</b>
Granted	4,555,895
Lapsed	(1,622,414)
Vested and transferred	<u>(11,131,651)</u>
<b>At 30 June 2017</b>	<b><u>78,167,642</u></b>
<b>Vested but not transferred as at 30 June 2017</b>	<b><u>193,648</u></b>
	No. of awarded shares
<b>At 1 January 2016</b>	91,786,907
Granted	25,984,856
Lapsed	(1,773,912)
Vested and transferred	<u>(24,714,206)</u>
<b>At 30 June 2016</b>	<b><u>91,283,645</u></b>
<b>Vested but not transferred as at 30 June 2016</b>	<b><u>–</u></b>

During the six months ended 30 June 2017, 60,000 awarded shares were granted to four independent non-executive directors of the Company (six months ended 30 June 2016: 50,000 awarded shares were granted to three independent non-executive directors of the Company).

## Notes to the Interim Financial Information

### 22 SHARE-BASED PAYMENTS (continued)

#### (b) Share award schemes (continued)

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

The weighted average fair value of awarded shares granted during the six months ended 30 June 2017 was HKD236.68 per share (equivalent to approximately RMB209.28 per share) (six months ended 30 June 2016: HKD147.62 per share (equivalent to approximately RMB124.46 per share)).

The outstanding awarded shares as of 30 June 2017 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 four months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

#### (c) Employee incentive schemes

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

The related share-based compensation expenses incurred for the six months ended 30 June 2017 and 2016 were insignificant to the Group.



## Notes to the Interim Financial Information

### 22 SHARE-BASED PAYMENTS (continued)

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

Certain subsidiaries of the Group operate their own share-based compensation plans (share options and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at its sole discretion. Similar to the share options and 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 subsidiaries (“Repurchase Transaction”). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

#### (e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the “Expected Retention Rate”) in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 30 June 2017, the Expected Retention Rate of the Group’s wholly-owned subsidiaries was assessed to be 88%-96% (31 December 2016: 88%-96%).

### 23 ACCOUNTS PAYABLE

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
0 - 30 days	<b>24,955</b>	20,815
31 - 60 days	<b>4,545</b>	2,740
61 - 90 days	<b>2,396</b>	1,495
Over 90 days	<b>5,086</b>	2,363
	<b>36,982</b>	27,413

## Notes to the Interim Financial Information

### 24 OTHER PAYABLES AND ACCRUALS

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
Staff costs and welfare accruals	<b>7,916</b>	8,965
Selling and marketing expense accruals	<b>3,218</b>	2,530
Prepayments received from customers and others	<b>1,551</b>	1,417
General and administrative expenses accruals	<b>1,129</b>	1,160
Purchase of land use rights and construction related costs	<b>712</b>	857
Purchase consideration payables for investee companies	<b>370</b>	394
Interest payable	<b>427</b>	403
Others (Note)	<b>5,901</b>	5,147
	<b><u>21,224</u></b>	<u>20,873</u>

Note:

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

### 25 LONG-TERM PAYABLES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
Payables relating to licensed online contents and running royalty fee for online games	<b>3,440</b>	3,859
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary	<b>234</b>	203
Others	<b>785</b>	873
	<b><u>4,459</u></b>	<u>4,935</u>

## Notes to the Interim Financial Information

### 26 BORROWINGS

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
<b>Included in non-current liabilities:</b>		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	<b>65,041</b>	57,549
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	<b>4,078</b>	–
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	<b>866</b>	–
Non-current portion of long-term RMB bank borrowings, secured (Note (a))	<b>475</b>	–
	<b>70,460</b>	57,549
<b>Included in current liabilities:</b>		
USD bank borrowings, unsecured (Note (b))	<b>5,420</b>	12,139
HKD bank borrowings, unsecured (Note (b))	<b>5,337</b>	–
Current portion of long-term USD bank borrowings, unsecured (Note (a))	–	139
Current portion of long-term RMB bank borrowings, unsecured (Note (a))	<b>22</b>	–
	<b>10,779</b>	12,278
	<b>81,239</b>	69,827

## Notes to the Interim Financial Information

### 26 BORROWINGS (continued)

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD9,601 million (31 December 2016: USD8,316 million), RMB4,575 million (31 December 2016: Nil) and HKD1,000 million (31 December 2016: Nil), respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.70% to 1.51% or an interest rate of 1.875% to 4.275% (31 December 2016: LIBOR plus 0.85% to 1.35% or an interest rate of 1.875%) per annum.

The long-term bank borrowings were repayable as follows:

	<b>Unaudited</b>	Audited
	<b>30 June 2017</b>	31 December 2016
	<b>RMB'Million</b>	RMB'Million
Within 1 year	<b>22</b>	139
Between 1 and 2 years	<b>5,036</b>	5,376
Between 2 and 5 years	<b>59,192</b>	48,947
More than 5 years	<b>6,232</b>	3,226
	<b>70,482</b>	57,688

- (b) The aggregate principal amounts of short-term USD bank borrowings and short-term HKD bank borrowings were USD800 million (31 December 2016: USD1,750 million) and HKD6,160 million (31 December 2016: Nil), respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.50% to 0.75% (31 December 2016: LIBOR plus 0.70% to 0.75%) per annum.

During the six months ended 30 June 2017, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 30 June 2017 have been detailed in Note 18.

As at 30 June 2017, the carrying amounts of borrowings approximated their fair values.

## Notes to the Interim Financial Information

### 27 NOTES PAYABLE

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
<b>Included in non-current liabilities:</b>		
Non-current portion of long-term USD notes payable	<b>27,661</b>	32,461
Non-current portion of long-term HKD notes payable	<b>3,633</b>	3,743
	<b>31,294</b>	36,204
<b>Included in current liabilities:</b>		
Current portion of long-term USD notes payable	<b>4,059</b>	3,466
	<b>35,353</b>	39,670

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD4,700 million (31 December 2016: USD5,200 million) and HKD4,200 million (31 December 2016: HKD4,200 million), respectively. The interest rate range of the notes payable is from 2.30% to 4.70% (31 December 2016: 2.00% to 4.70%) per annum.

The notes payable were repayable as follows:

	<b>Unaudited</b>	Audited
	<b>30 June 2017</b>	31 December 2016
	<b>RMB'Million</b>	RMB'Million
Within 1 year	<b>4,059</b>	3,466
Between 1 and 2 years	<b>14,380</b>	5,043
Between 2 and 5 years	<b>10,193</b>	24,281
More than 5 years	<b>6,721</b>	6,880
	<b>35,353</b>	39,670

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

In May 2017, the notes payable with an aggregate principal amount of USD500 million issued in April 2014 reached their maturity and were repaid in full by the Group.

As at 30 June 2017, the fair value of the notes payable amounted to RMB36,237 million (31 December 2016: RMB40,379 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

### 28 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 30 June 2017.

### 29 COMMITMENTS

#### (a) Capital commitments

Capital commitments as at 30 June 2017 and 31 December 2016 are analysed as follows:

	<b>Unaudited 30 June 2017 RMB'Million</b>	Audited 31 December 2016 RMB'Million
Contracted:		
Construction/Purchase of buildings and purchase of land use rights	<b>2,080</b>	1,911
Purchase of other property, plant and equipment	<b>95</b>	44
Capital investments in investees	<b>2,891</b>	2,866
	<b>5,066</b>	4,821

#### (b) Operating lease commitments

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

	<b>Unaudited 30 June 2017 RMB'Million</b>	Audited 31 December 2016 RMB'Million
Contracted:		
Not later than one year	<b>280</b>	302
Later than one year and not later than five years	<b>575</b>	632
Later than five years	<b>1,067</b>	1,156
	<b>1,922</b>	2,090

## Notes to the Interim Financial Information

### 29 COMMITMENTS (continued)

#### (c) Other commitments

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'Million</b>	RMB'Million
Contracted:		
Not later than one year	<b>4,361</b>	3,404
Later than one year and not later than five years	<b>5,853</b>	4,081
Later than five years	<b>1,560</b>	1,540
	<b><u>11,774</u></b>	<u>9,025</u>

### 30 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 14 (Transactions with associates), Note 17 (Loans to investees and investees' shareholders), and Note 22 (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 2017, and no other material related parties' balances as at 30 June 2017.

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2017, 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)	827,507,500	8.73%
Lau Chi Ping Martin	Personal *	47,568,000 (Note 2)	0.50%
Li Dong Sheng	Personal *	46,300 (Note 3)	0.0005%
Iain Ferguson Bruce	Personal *	510,000 (Note 4)	0.005%
Ian Charles Stone	Personal * Family +	180,000 <hr/> 240,000 420,000 (Note 5)	0.004%
Yang Siu Shun	Personal *	21,474 (Note 6)	0.0002%

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng, holds 729,507,500 shares directly and 98,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.
2. The interest comprises 31,068,000 shares and 16,500,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out below under "Share Option Schemes".



## Other Information

3. The interest comprises 11,300 shares and 35,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
  4. The interest comprises 440,000 shares and 70,000 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 350,000 shares and 70,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
  6. The interest comprises 21,474 underlying shares in respect of the awarded shares granted pursuant to the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out below under “Share Award Schemes”.
- \* Interests of beneficial owner
- + Interests of spouse or child under 18 as beneficial owner

### (B) Long position in the shares of associated corporations of the Company

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Approximate % of shareholding
Ma Huateng	Tencent Computer	Personal	RMB35,285,705 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2017.

## Other Information

### SHARE OPTION SCHEMES

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV. The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II expired on 31 December 2011, 23 March 2014 and 16 May 2017 respectively. In respect of the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. Movements of the options under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV during the six months ended 30 June 2017 are detailed in Note 22 to the Interim Financial Information as included in this interim report.

As at 30 June 2017, there were a total of 16,500,000 outstanding share options granted to a director of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options			As at 30 June 2017	Exercise price HKD	Exercise period
		As at 1 January 2017	Granted during the period	Exercised during the period			
Lau Chi Ping Martin	24 March 2010	2,500,000	–	–	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	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 3)
	24 March 2017	–	5,250,000 (Note 4)	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 3)
Total:		<u>11,250,000</u>	<u>5,250,000</u>	<u>–</u>	<u>16,500,000</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 each 25% of the total options will become exercisable in each subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
4. The closing price immediately before the date on which the options were granted on 24 March 2017 was HKD223.
5. 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 a director of the Company) during the six months ended 30 June 2017 are as follows:

Date of grant	Number of share options				As at 30 June 2017	Exercise price HKD	Exercise period
	As at 1 January 2017	Granted during the period	Exercised during the period (Note 10)	Lapsed during the period			
24 Mar 2010	25,000	–	25,000	–	–	31.70	24 Mar 2012 to 23 Mar 2017 (Note 1)
5 Jul 2010	56,750	–	8,000	–	48,750	26.08	5 Jul 2011 to 4 Jul 2017 (Note 2)
5 Jul 2010	1,057,575	–	1,057,575	–	–	26.08	5 Jul 2012 to 4 Jul 2017 (Note 1)
5 Jul 2010	1,363,800	–	1,242,550	11,250	110,000	26.08	5 Jul 2013 to 4 Jul 2017 (Note 3)
24 Mar 2011	798,750	–	77,500	–	721,250	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	77,500	–	16,200	–	61,300	37.80	15 Aug 2012 to 14 Aug 2018 (Note 2)
15 Aug 2011	620,700	–	38,800	–	581,900	37.80	15 Aug 2013 to 14 Aug 2018 (Note 1)
15 Aug 2011	50,000	–	–	–	50,000	37.80	15 Aug 2014 to 14 Aug 2018 (Note 3)
13 Sep 2012	705,250	–	27,500	9,375	668,375	49.76	13 Sep 2013 to 12 Sep 2019 (Note 2)
25 Mar 2014	2,562,500	–	–	–	2,562,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 5)
25 Mar 2014	3,725,000	–	125,000	–	3,600,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 2)
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 5)
10 Jul 2014	1,540,128	–	82,549	23,875	1,433,704	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	903,263	–	18,131	12,600	872,532	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 (Note 6)
6 Jul 2016	1,418,070	–	–	18,120	1,399,950	174.86	6 Jul 2017 to 5 Jul 2023 (Note 6)
24 Mar 2017	–	1,417,930	–	–	1,417,930	225.44	24 Mar 2018 to 23 Mar 2024 (Notes 8 and 9)
24 Mar 2017	–	21,831,440	–	–	21,831,440	225.44	24 Mar 2018 to 23 Mar 2024 (Notes 6 and 9)
24 Mar 2017	–	26,845	–	–	26,845	225.44	24 Mar 2019 to 23 Mar 2024 (Notes 7 and 9)
Total:	<u>22,497,436</u>	<u>23,276,215</u>	<u>2,718,805</u>	<u>75,220</u>	<u>42,979,626</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 2 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
3. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 3 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
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 each 33.33% 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 each 33.33% 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 each 25% 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 each 25% of the total options will become exercisable in each subsequent year.
8. For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options can be exercised 1 year after the grant date, and the remaining 50% of the total options will become exercisable in the subsequent year.
9. The closing price immediately before the date on which the options were granted on 24 March 2017 was HKD223.
10. The weighted average closing price immediately before the date on which the options were exercised was HKD265.7.

## Other Information

Details of movements of share options granted to employees and certain external consultants under the equity plans adopted by Tencent Music, a subsidiary of the Group, during the six months ended 30 June 2017 are as follows:

Date of grant	Number of share options			As at 30 June 2017	Exercise price USD	Exercise period
	As at 1 January 2017	Granted during the period	Exercised during the period			
<b>Employees</b>						
1 Mar 2015	12,432,336	–	–	12,432,336	0.000083	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	10,441,960	–	–	10,441,960	0.29	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	26,880,000	–	3,600,000	23,280,000	0.29	1 Mar 2016 to 28 Feb 2025 (Note 2)
1 Mar 2015	7,482,654	–	–	7,482,654	0.35	1 Mar 2016 to 28 Feb 2025 (Note 2)
30 Mar 2015	3,869,842	–	–	3,869,842	0.29	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Jul 2015	200,000	–	–	200,000	0.29	1 Jul 2016 to 30 Jun 2025 (Note 1)
1 Jul 2015	3,600,000	–	–	3,600,000	0.29	1 Jul 2016 to 30 Jun 2025 (Note 2)
1 Oct 2015	908,800	–	–	908,800	0.29	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	3,448,491	–	–	3,448,491	0.29	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	345,300	–	–	345,300	0.000083	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	875,000	–	–	875,000	0.29	1 Mar 2017 to 28 Feb 2026 (Note 1)
1 Mar 2016	500,000	–	–	500,000	0.29	1 Mar 2017 to 28 Feb 2026 (Note 2)
31 Mar 2016	390,000	–	–	390,000	0.29	31 Mar 2017 to 30 Mar 2026 (Note 1)
1 Jun 2016	800,000	–	–	800,000	0.000083	1 Jun 2017 to 31 May 2026 (Note 2)
1 Jun 2016	6,521,513	–	–	6,521,513	0.29	1 Jun 2017 to 31 May 2026 (Note 3)
30 Jun 2016	600,000	–	–	600,000	0.000083	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	12,430,852	–	–	12,430,852	0.29	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	–	2,468,764	–	2,468,764	2.53	5 Jul 2017 to 15 Jun 2027 (Note 4)
16 Jun 2017	–	9,565,716	–	9,565,716	2.53	31 Mar 2018 to 15 Jun 2027 (Note 4)
Sub-total:	<u>91,726,748</u>	<u>12,034,480</u>	<u>3,600,000</u>	<u>100,161,228</u>		
<b>External consultants</b>						
1 Mar 2015	2,348,099	–	–	2,348,099	0.000083	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	<u>2,630,000</u>	–	–	<u>2,630,000</u>	0.29	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	<u>4,978,099</u>	–	–	<u>4,978,099</u>		
Total:	<u>96,704,847</u>	<u>12,034,480</u>	<u>3,600,000</u>	<u>105,139,327</u>		

## Other Information

Note:

1. The first 25% of the total options can be exercised 1 year after the commencement dates as specified in the relevant grant letters, and each 12.5% of the total options will become exercisable in each subsequent six months.
2. The first 25% of the total options can be exercised 1 year after the commencement date as specified in the grant letter, and each 6.25% of the total options will become exercisable in each subsequent quarter. Subject to the satisfaction of a certain condition, the entire vesting schedule for the remaining options will be accelerated by 1 year or the remaining options will become immediately vested.
3. All the options can be exercised 1 year after the commencement date as specified in the relevant grant letter if a certain condition is satisfied.
4. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
5. No options were cancelled or lapsed during the period.

## Other Information

### SHARE AWARD SCHEMES

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

#### 2007 Share Award Scheme

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

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



## 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 2017, a total of 4,555,895 Awarded Shares were granted under the 2013 Share Award Scheme and out of which 60,000 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 2017 are set out in Note 22 to the Interim Financial Information as included in this interim report.

As at 30 June 2017, there were a total of 196,474 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 2017	Vesting period
		As at 1 January 2017	Granted during the period	Vested during the period		
Iain Ferguson Bruce	24 March 2014	30,000	–	10,000	20,000	24 March 2015 to 24 March 2019
	2 April 2015	22,500	–	7,500	15,000	2 April 2016 to 2 April 2019
	21 March 2016	20,000	–	5,000	15,000	21 March 2017 to 21 March 2020
	24 March 2017	–	20,000	–	20,000	24 March 2018 to 24 March 2021
	Total:	<u>72,500</u>	<u>20,000</u>	<u>22,500</u>	<u>70,000</u>	
Ian Charles Stone	24 March 2014	30,000	–	10,000	20,000	24 March 2015 to 24 March 2019
	2 April 2015	22,500	–	7,500	15,000	2 April 2016 to 2 April 2019
	21 March 2016	20,000	–	5,000	15,000	21 March 2017 to 21 March 2020
	24 March 2017	–	20,000	–	20,000	24 March 2018 to 24 March 2021
	Total:	<u>72,500</u>	<u>20,000</u>	<u>22,500</u>	<u>70,000</u>	

## Other Information

Name of director	Date of grant	Number of Awarded Shares			As at 30 June 2017	Vesting period
		As at 1 January 2017	Granted during the period	Vested during the period		
Li Dong Sheng	24 March 2014	15,000	–	5,000	10,000	24 March 2015 to 24 March 2019
	2 April 2015	11,250	–	3,750	7,500	2 April 2016 to 2 April 2019
	21 March 2016	10,000	–	2,500	7,500	21 March 2017 to 21 March 2020
	24 March 2017	–	10,000	–	10,000	24 March 2018 to 24 March 2021
	Total:	<u>36,250</u>	<u>10,000</u>	<u>11,250</u>	<u>35,000</u>	
Yang Siu Shun	6 July 2016	11,474	–	–	11,474	6 July 2017 to 6 July 2020
	24 March 2017	–	10,000	–	10,000	24 March 2018 to 24 March 2021
	Total:	<u>11,474</u>	<u>10,000</u>	<u>–</u>	<u>21,474</u>	
Grand Total:	<u>192,724</u>	<u>60,000</u>	<u>56,250</u>	<u>196,474</u>		

## Other Information

### BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

**Ma Huateng**, age 45, 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 23 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 RMB6,796,400 in 2017 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 44, 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 USD1,050,000 in 2017 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 64, 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 53, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, including Mail.ru Group Limited that is listed on the London Stock Exchange and MakeMyTrip Limited that is listed on NASDAQ. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 23 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 60, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation and the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited, both 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 22 years of experience in the information technology field. Mr Li is the Chairman of TCL Communication Technology Holdings Limited, which was delisted for privatisation from the Stock Exchange on 30 September 2016. Mr Li is entitled to a director's fee of HKD750,000 per annum for the year 2017, which is determined with reference to his duties and responsibilities with the Company.

**Iain Ferguson Bruce**, age 76, 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 52 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is an independent non-executive director of MSIG Insurance (Hong Kong) Limited. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, The 13 Holdings Limited (formerly known as Louis XIII Holdings Limited), a construction, engineering services and hotel development company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the Stock Exchange. Mr Bruce is also an independent non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce was an independent non-executive director of 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 was also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited, up to 11 May 2017, and was also an independent non-executive director of Citibank (Hong Kong) Limited, up to 2 August 2017. Mr Bruce is entitled to a director's fee of HKD1,100,000 per annum for the year 2017, which is determined with reference to his duties and responsibilities with the Company.

## Other Information

**Ian Charles Stone**, age 66, 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 27 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 46 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 HKD1,000,000 per annum for the year 2017, which is determined with reference to his duties and responsibilities with the Company.

**Yang Siu Shun**, age 61, 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 HKD750,000 per annum for the year 2017, which is determined with reference to his duties and responsibilities with the Company.

## Other Information

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, 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	33.24%
Advance Data Services Limited	Long position	Corporate (Note 2)	827,507,500	8.73%
JPMorgan Chase & Co.	Long position	Beneficial owner	217,409,550	
		Investment manager	97,907,004	
		Trustee (other than a bare trustee)	49,797	
		Custodian corporation/ approved lending agent	263,299,067	
		Total (Note 3(i)):	578,665,418	6.10%
	Short position	Beneficial owner (Note 3(ii))	86,580,227	0.91%

## 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. Advance Data Services Limited holds 729,507,500 shares directly and 98,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of “Directors’ Interests in Securities”.
3. (i) Such long position includes derivative interests in 60,907,561 underlying shares of the Company of which 11,003,696 underlying shares are derived from listed and physically settled derivatives, 5,732,600 underlying shares are derived from listed and cash settled derivatives, 36,450,726 underlying shares are derived from unlisted and physically settled derivatives and 7,720,539 underlying shares are derived from unlisted and cash settled derivatives. It also includes 263,299,067 shares in lending pool.  
  
(ii) Such short position includes derivative interests in 55,047,808 underlying shares of the Company of which 9,540,033 underlying shares are derived from listed and physically settled derivatives, 12,733,440 underlying shares are derived from listed and cash settled derivatives, 20,681,676 underlying shares are derived from unlisted and physically settled derivatives and 12,092,659 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, the Company had not been notified of any other persons (other than the directors or chief executive of the Company) who, as at 30 June 2017, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.



## Other Information

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2017.

### **EMPLOYEE AND REMUNERATION POLICIES**

As at 30 June 2017, the Group had 40,678 employees (30 June 2016: 31,557). 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 2017 was RMB16,017 million (for the six months ended 30 June 2016: RMB10,205 million).

### **AUDIT COMMITTEE**

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2017. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

### **ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS**

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

### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Save as disclosed in the corporate governance report in the 2016 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions as set out in the CG Code during the period from 1 January 2017 to 30 June 2017.

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:

<b>Term</b>	<b>Definition</b>
“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
“ARPU”	average revenue per user
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Awarded Share(s)”	the share(s) of the Company awarded under the Share Award Schemes
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles

## Definition

<b>Term</b>	<b>Definition</b>
“Grant Date”	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IPO”	initial public offering
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MIH TC”	MIH TC Holdings Limited
“MOBA”	Multiplayer Online Battle Arena
“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
“Netmarble”	Netmarble Games Corporation, a company incorporated under the laws of Korea and the shares of which are listed on the Korea Exchange
“O2O”	online-to-offline, or offline-to-online
“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
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017

## Definition

<b>Term</b>	<b>Definition</b>
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“RMB”	the lawful currency of the PRC
“RPG”	role playing game
“Selected Participant(s)”	any Eligible Person(s) selected by the Board to participate in the Share Award Schemes
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share Award Schemes”	the 2007 Share Award Scheme and the 2013 Share Award Scheme
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“Tencent Music”	Tencent Music Entertainment Group (formerly known as China Music Corporation), a limited liability company incorporated under the laws of the Cayman Islands
“TMT”	Technology, Media and Telecommunications
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services

# Tencent 腾讯

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