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Tencent 腾讯
TENCENT HOLDINGS LIMITED
騰訊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 700)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2014**

The Board is pleased to announce the unaudited consolidated results of the Group for the three and six months ended 30 June 2014. These interim results have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

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

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

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

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

BUSINESS REVIEW AND OUTLOOK

Overall Financial Performance

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

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

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

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

Strategic Highlights

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

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

Divisional and Product Highlights

Operating Information

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

Key Platforms

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

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

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

VAS

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

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

Online advertising

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

eCommerce Transactions

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

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2014 Compared to Second Quarter of 2013

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Second Quarter of 2014 Compared to First Quarter of 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Financial Information

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

Note:

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

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

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

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of

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

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

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

Unaudited three months ended 30 June 2014

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

Unaudited three months ended 31 March 2014

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

Unaudited three months ended 30 June 2013

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

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

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

Note:

- (a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) (Gains)/losses, net on deemed disposals of investees and disposals of investees and businesses
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates and available-for-sale financial assets
- (e) Special dividend income from Mail.ru

Liquidity and Financial Resources

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

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

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

As at 30 June 2014, RMB9,649 million of our financial resources were held in deposits denominated in non-RMB currencies. Since there are limited cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits.

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

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

		Unaudited	Audited
		30 June	31 December
		2014	2013
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Fixed assets		8,336	8,693
Construction in progress		2,510	2,041
Investment properties		270	—
Land use rights		802	871
Intangible assets		4,181	4,103
Interests in associates	3	42,604	12,170
Investment in joint ventures		18	9
Deferred income tax assets		317	431
Available-for-sale financial assets	4	14,180	12,515
Prepayments, deposits and other assets		1,263	1,296
Term deposits		<u>6,719</u>	<u>11,420</u>
		<u>81,200</u>	<u>53,549</u>
Current assets			
Inventories		656	1,384
Accounts receivable	5	4,185	2,955
Prepayments, deposits and other assets		7,291	5,365
Term deposits		18,139	19,623
Restricted cash		6,523	4,131
Cash and cash equivalents		<u>32,639</u>	<u>20,228</u>
		<u>69,433</u>	<u>53,686</u>
Total assets		<u>150,633</u>	<u>107,235</u>

		Unaudited	Audited
		30 June	31 December
		2014	2013
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		—	—
Share premium		3,601	2,846
Shares held for share award schemes		(898)	(871)
Other reserves		4,523	3,746
Retained earnings		62,756	52,224
		69,982	57,945
Non-controlling interests		493	518
Total equity		70,475	58,463
LIABILITIES			
Non-current liabilities			
Borrowings	7	4,030	3,323
Long-term notes payable	8	26,192	9,141
Deferred income tax liabilities		1,917	1,441
Long-term payables		1,227	1,600
Deferred revenue		3,966	—
		37,332	15,505
Current liabilities			
Accounts payable	9	8,362	6,680
Other payables and accruals		13,517	10,246
Borrowings	7	4,790	2,589
Current income tax liabilities		839	1,318
Other tax liabilities		649	593
Deferred revenue		14,669	11,841
		42,826	33,267
Total liabilities		80,158	48,772
Total equity and liabilities		150,633	107,235
Net current assets		26,607	20,419
Total assets less current liabilities		107,807	73,968

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2014**

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Revenues					
Value-added services		15,713	10,752	30,126	21,418
Online advertising		2,064	1,297	3,241	2,147
eCommerce transactions		1,324	2,199	3,848	4,113
Others		<u>645</u>	<u>136</u>	<u>931</u>	<u>254</u>
		19,746	14,384	38,146	27,932
Cost of revenues	11	<u>(7,574)</u>	<u>(6,590)</u>	<u>(15,374)</u>	<u>(12,544)</u>
Gross profit		12,172	7,794	22,772	15,388
Interest income		406	324	781	601
Other gains, net	10	691	82	2,298	433
Selling and marketing expenses	11	(1,973)	(1,234)	(3,828)	(2,197)
General and administrative expenses	11	<u>(3,453)</u>	<u>(2,401)</u>	<u>(6,390)</u>	<u>(4,597)</u>
Operating profit		7,843	4,565	15,633	9,628
Finance (costs)/income, net		(354)	14	(592)	(68)
Share of profit of associates		23	46	68	177
Share of losses of joint ventures		<u>—</u>	<u>(15)</u>	<u>(1)</u>	<u>(27)</u>
Profit before income tax		7,512	4,610	15,108	9,710
Income tax expense	12	<u>(1,686)</u>	<u>(926)</u>	<u>(2,850)</u>	<u>(1,955)</u>
Profit for the period		<u>5,826</u>	<u>3,684</u>	<u>12,258</u>	<u>7,755</u>

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Attributable to:					
Equity holders of the Company		5,836	3,680	12,293	7,724
Non-controlling interests		<u>(10)</u>	<u>4</u>	<u>(35)</u>	<u>31</u>
		<u>5,826</u>	<u>3,684</u>	<u>12,258</u>	<u>7,755</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
			Restated		Restated
- basic	13	<u>0.632</u>	<u>0.402</u>	<u>1.332</u>	<u>0.843</u>
- diluted	13	<u>0.623</u>	<u>0.395</u>	<u>1.313</u>	<u>0.828</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2014**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 1 January 2014	—	2,846	(871)	3,746	52,224	57,945	518	58,463
Comprehensive income								
Profit for the period	—	—	—	—	12,293	12,293	(35)	12,258
Other comprehensive income:								
- share of other comprehensive income of associates	—	—	—	13	—	13	—	13
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	693	—	693	—	693
- currency translation differences	—	—	—	(2)	—	(2)	8	6
Total comprehensive income for the period	—	—	—	704	12,293	12,997	(27)	12,970
Transaction with owners								
Employee share option schemes:								
- value of employee services	—	60	—	51	—	111	10	121
- proceeds from shares issued	—	195	—	—	—	195	—	195
Employee share award schemes:								
- value of employee services	—	572	—	63	—	635	5	640
- shares purchased for Share Award Schemes	—	—	(38)	—	—	(38)	—	(38)
- vesting of awarded shares	—	(11)	11	—	—	—	—	—
Repurchase and cancellation of shares	—	(61)	—	—	—	(61)	—	(61)
Dividends (Note 14)	—	—	—	—	(1,761)	(1,761)	(115)	(1,876)
Total contributions by and distributions to owners for the period	—	755	(27)	114	(1,761)	(919)	(100)	(1,019)
Non-controlling interests arising from business combination	—	—	—	—	—	—	106	106
Disposal of equity interests in a non-wholly owned subsidiary	—	—	—	230	—	230	(10)	220
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	(628)	—	(628)	6	(622)
Settlement of the financial liabilities in respect of the put option granted to non-controlling interests owners	—	—	—	357	—	357	—	357
Total transactions with owners for the period	—	755	(27)	73	(1,761)	(960)	2	(958)
Balance at 30 June 2014	—	3,601	(898)	4,523	62,756	69,982	493	70,475

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	13,813	11,952
Net cash flows used in investing activities	(19,423)	(7,471)
Net cash flows generated from/(used in) financing activities	<u>17,898</u>	<u>(2,962)</u>
Net increase in cash and cash equivalents	12,288	1,519
Cash and cash equivalents at beginning of period	20,228	13,383
Exchange gains/(losses) on cash and cash equivalents	<u>123</u>	<u>(110)</u>
Cash and cash equivalents at end of period	<u><u>32,639</u></u>	<u><u>14,792</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	14,248	8,007
Term deposits and highly liquid investments with initial term within three months	<u>18,391</u>	<u>6,785</u>
	<u><u>32,639</u></u>	<u><u>14,792</u></u>

Note:

1 General information, basis of preparation and presentation

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

The Company is an investment holding company. The Group is principally engaged in the provision of VAS, online advertising services and eCommerce transactions services to users in the PRC.

The consolidated statement of financial position as at 30 June 2014, the related consolidated income statement and the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 13 August 2014.

The Interim Financial Information is prepared in accordance with International Accounting Standards 34 ‘Interim Financial Reporting’ issued by the International Accounting Standards Board.

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2013 as set out in the 2013 annual report of the Company dated 19 March 2014 (the “2013 Financial Statements”).

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2013 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of assets and liabilities stated at fair value, such as available-for-sale financial assets.

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

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

Amendment to IAS 32	Financial instruments: Presentation
Amendment to IAS 39	Financial Instruments: Recognition and Measurement
Amendments to IFRS 10, 12 and IAS 27	Consolidation for investment entities
IFRIC 21	Levies

2 Segment information

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

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

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

There were no material inter-segment sales during the three and six months ended 30 June 2014 and 2013. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

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

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

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

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

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

3 Interests in associates

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

Note:

(a) **Investments in associates**

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

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

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

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

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

- (ii) In March 2014, the Group entered into an agreement with E-House to acquire from E-House approximately 15.0% of equity interests of Leju on a fully-diluted basis at a cash consideration of USD180 million (equivalent to approximately RMB1,102 million). On 22 April 2014, the shares of Leju were listed on the New York Stock Exchange and the Group subscribed additional shares of Leju at a cash consideration of USD20 million (equivalent to approximately RMB125 million), such that the Group's equity interests of Leju were approximately 15% on a fully-diluted basis.

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

- (iii) In April 2014, the Group entered into an agreement to acquire approximately 11.28% of the total share capital in NavInfo at a total consideration of RMB1,173 million. NavInfo provides digital maps, telematics and dynamic traffic information services as well as geography-related business intelligence solutions in the PRC.
- (iv) In June 2014, the Group entered into an agreement with 58.com to acquire 19.9% of total outstanding share capital of 58.com on a fully-diluted basis at a consideration of approximately USD736 million (equivalent to approximately RMB4,541 million). 58.com operates a classified listings platform in the PRC.
- (v) In January 2014, the Group entered into an agreement to subscribe approximately 680 million new ordinary shares of CSC at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). In addition, the Group has a call option to subscribe further 245 million new shares of CSC at a cash consideration of HKD857 million (equivalent to approximately RMB680 million) within 2 years after its initial investment made in CSC. CSC is a developer and operator of large scale integrated logistics and trade centers in the PRC.

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

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

(b) **Investments in redeemable preference shares of associates**

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

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

4 Available-for-sale financial assets

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

Note:

- (a) In January 2014, the Group entered into an agreement to subscribe approximately 680 million new ordinary shares of CSC at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). During the three months ended 30 June 2014, the Group reclassified its investment in CSC from available-for-sale financial assets to investment in associates. The detail information is disclosed in Note 3(a)(v).
- (b) The Group acquired some other available-for-sale financial assets or made some additional investments in some existing available-for-sale financial assets for an aggregate consideration of RMB1,536 million during the six months ended 30 June 2014. They are principally engaged in O2O business and other Internet-related business.

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

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

Receivable balances as at 30 June 2014 mainly represented amounts due from telecommunications operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as brand display advertising customers mainly located in the PRC.

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

6 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

As at the listing of the Company on 16 June 2004, all options under the Pre-IPO Option Scheme had been granted. The Pre-IPO Option Scheme expired on 31 December 2011.

(ii) Post-IPO Option Scheme I

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

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

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

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

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

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

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

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

Note:

- (1) The number of shares and average exercise price were presented before the effect of the Share Subdivision.
- (2) The number of shares and average exercise price were presented after the effect of the Share Subdivision.

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

(b) **Share award schemes**

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

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

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

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

Note:

- (i) The number of shares were presented before the effect of the Share Subdivision
- (ii) The number of shares were presented after the effect of the Share Subdivision

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

7 Borrowings

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

Movement in the borrowings is analysed as follows:

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

Note:

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

8 Long-term notes payable

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

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

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

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

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

On 16 May 2014, the Company issued another tranche of senior notes under the Programme (the “2014 Notes III”) with an aggregate principal amount of HKD2,000 million due 2020. The 2014 Notes III bears an interest at 3.200% per annum, payable quarterly in arrears on 10 July, 10 October, 10 January and 10 April of each year, beginning on 10 July 2014. The net proceeds from the issuance of the 2014 Notes III amounted to approximately HKD1,998 million (equivalent to

approximately RMB1,588 million), after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. The 2014 Notes III has been listed on the Stock Exchange.

As at 30 June 2014, the carrying amount of these notes was RMB26,192 million (31 December 2013: RMB9,141 million).

9 Accounts payable

Accounts payable and their ageing analysis are as follows:

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

10 Other gains, net

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

Note:

The disposal gain recognised in “Other gains, net” for the disposal of certain eCommerce related business (“Transferred Business”) of the Group, which forms as part of the investment consideration for the investment made in JD.com (Note 3(a)(i)), was RMB1,942 million, being the difference between the consideration for the Transferred Business and the net asset value of the transferred equity interests and assets at completion of the disposal of the Transferred Business.

11 Expenses by nature

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

Note:

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

- (b) Amortisation expense of licenses and licensed online contents were included in amortisation of intangible assets.

12 Income Tax expenses

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

(a) Cayman Islands and British Virgin Islands Corporate Income Tax

The Group was not subject to any taxation in the Cayman Islands and British Virgin Islands for the three and six months ended 30 June 2014 and 2013.

(b) Hong Kong Profits Tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three and six months ended 30 June 2014 and 2013.

(c) PRC Corporate Income Tax

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the three and six months ended 30 June 2014 and 2013, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law promulgated by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate is 25% for domestic and foreign enterprise in 2014.

In 2011, certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. As at 30 June 2014, these subsidiaries were in the process of renewing such entitlements by applying to the relevant government authorities. The directors of the Company are of the view that these subsidiaries have used their applicable CIT rates (15% or 25%), to make their CIT provision for the three and six months ended 30 June 2014. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates for 2013 and 2014 were further reduced to 10%.

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

(d) **United States Corporate Income Tax**

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

(e) **Corporate Income Tax in other countries**

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

(f) **PRC withholding tax**

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate could be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

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

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

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three and six months ended 30 June 2014 and 2013, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

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

13 EPS

(a) Basic

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

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

Note:

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

(b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three and six months ended 30 June 2014, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

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

Note:

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

14 Dividends

A final dividend in respect of the year ended 31 December 2013 of HKD1.20 per share before the effect of the Share Subdivision, or HKD0.24 per share after the effect of the Share Subdivision (2012: HKD1.00 per share before the effect of the Share Subdivision) was proposed pursuant to a resolution passed by the Board on 19 March 2014 and approved by the shareholders at the 2014 AGM. Such dividend, amounted to HKD2,214 million (equivalent to approximately RMB1,759 million) (final dividend for 2012: HKD1,832 million (equivalent to approximately RMB1,468 million)), had been paid as at 30 June 2014.

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

15 Subsequent event

Investment in CJ Games

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

OTHER INFORMATION

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

During the six months ended 30 June 2014, the Company repurchased 153,000 shares, which was adjusted to 765,000 shares after the Share Subdivision, on the Stock Exchange for an aggregate consideration of approximately HKD76.7 million before expenses. The repurchased shares were subsequently cancelled. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in the six months ended 30 June 2014	Before the Share Subdivision			After the Share Subdivision			Aggregate consideration paid HKD
	No. of shares purchased	Purchase consideration per share		No. of shares purchased	Purchase consideration per share		
		Highest price paid HKD	Lowest price paid HKD		Highest price paid HKD	Lowest price paid HKD	
April	153,000	503.5	499.0	765,000	100.7	99.8	76,736,584

Save as disclosed above and in the “Financial Information” section, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2014.

Employee and Remuneration Policies

As at 30 June 2014, the Group had 24,993 employees (30 June 2013: 25,517). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the six months ended 30 June 2014 was RMB7,020 million (for the six months ended 30 June 2013: RMB5,002 million).

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2014.

Compliance with the Corporate Governance Code

Save as disclosed in the 2013 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the CG Code during the period from 1 January 2014 to 30 June 2014.

As to the deviation from code provisions A.2.1 and A.4.2 of the CG Code, the Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

APPRECIATION

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

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 13 August 2014

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

Jacobus Petrus Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:

Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.

This announcement contains forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

DEFINITION

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

Term	Definition
“2014 AGM”	the annual general meeting of the Company held on 14 May 2014
“58.com”	58.com Inc., a company incorporated under the laws of the Cayman Islands whose American depositary shares are listed on the New York Stock Exchange
“ACG(s)”	advanced casual game(s)
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“ARPU”	average revenue per user
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
“Cheetah Mobile”	Cheetah Mobile Inc., a limited liability company incorporated in the Cayman Islands whose American depositary shares are listed on the New York Stock Exchange
“China Mobile”	China Mobile Communications Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Network Communications Group Company Limited
“ChinaVision”	ChinaVision Media Group Limited (currently known as Alibaba Pictures Group Limited), a limited liability company incorporated in Bermuda and the shares of which are listed on the Stock Exchange
“CIT”	corporate income tax

“CJ Games”	CJ Games Corporation, a company incorporated under the laws of Korea
“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
“CSC”	China South City Holdings Limited, a limited liability company incorporated in Hong Kong and the shares of which are listed on the Stock Exchange
“Dianping”	Dianping Holdings Ltd., a limited liability company incorporated in the Cayman Islands
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“E-House”	E-House (China) Holdings Limited, a limited liability company incorporated in the Cayman Islands whose American depository shares are listed on the New York Stock Exchange
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“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(s)”	initial public offering(s)
“JD.com”	JD.com, Inc., a limited liability company incorporated in the Cayman Islands whose American depository shares are listed on NASDAQ

“Kingsoft”	Kingsoft Corporation Limited, a limited liability company existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“Korea”	the Republic of Korea
“KRW”	Korea Won, the lawful currency of Korea
“Leju”	Leju Holdings Limited, a limited liability company incorporated in the Cayman Islands whose American depositary shares are listed on the New York Stock Exchange
“LIBOR”	London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“Mail.ru”	Mail.ru Group Limited, a limited liability company incorporated in the British Virgin Islands whose global depositary receipts are traded on the London Stock Exchange
“MAU”	monthly active user accounts
“MMOGs”	massively multi-player online game(s), a form of computer game that involves a large number of user playing a game online simultaneously
“NASDAQ”	NASDAQ Global Select Market
“NavInfo”	NavInfo Co., Ltd., a limited liability company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange
“O2O”	online to offline
“PC(s)”	personal computer(s)
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004

“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“RMB”	the lawful currency of the PRC
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended; and the share award scheme adopted by the Company on 13 November 2013
“Share Subdivision”	with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each after passing of an ordinary resolution at the 2014 AGM and the Stock Exchange granting the listing of, and permission to deal in, the subdivided shares
“Sogou”	Sogou Inc., a limited liability company incorporated in the Cayman Islands
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States” or “US”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services
“Yixun”	Shanghai Icson E-Commerce Development Company Limited (上海易迅電子商務發展有限公司), a company formed under the laws of the PRC, a subsidiary of the Group