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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 NINE MONTHS ENDED 30 SEPTEMBER 2014

The Board is pleased to announce the unaudited consolidated results of the Group for the three and nine months ended 30 September 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

	30 September 2014	Unaudited Nine months ended 30 September 2013	Year- on-year change
	(RMB in millions, unless specified)		
Revenues	57,954	43,467	33%
Gross profit	35,413	23,887	48%
Operating profit	23,148	14,443	60%
Profit for the period	17,934	11,632	54%
Profit attributable to equity holders of the Company	17,950	11,591	55%
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	17,501	12,535	40%
EPS ⁽²⁾ (RMB per share)			
- basic	1.948	1.264	54%
- diluted	1.918	1.242	54%
Non-GAAP EPS ⁽¹⁾⁽²⁾ (RMB per share)			
- basic	1.899	1.367	39%
- diluted	1.870	1.343	39%

	Unaudited				
	Three months ended				
	30 September	30 September	Year-	30 June	Quarter-
	2014	2013	on-year	2014	on-quarter
			change		change
	(RMB in millions, unless specified)				
Revenues	19,808	15,535	28%	19,746	0%
Gross profit	12,641	8,499	49%	12,172	4%
Operating profit	7,515	4,815	56%	7,843	-4%
Profit for the period	5,676	3,877	46%	5,826	-3%
Profit attributable to equity holders of the Company	5,657	3,867	46%	5,836	-3%
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	6,433	4,371	47%	5,874	10%
EPS ⁽²⁾ (RMB per share)					
- basic	0.612	0.421	45%	0.632	-3%
- diluted	0.605	0.414	46%	0.623	-3%
Non-GAAP EPS ⁽¹⁾⁽²⁾ (RMB per share)					
- basic	0.696	0.476	46%	0.636	9%
- diluted	0.688	0.468	47%	0.627	10%

⁽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⁾ Since the second quarter of 2014, EPS has been 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 third quarter of 2014, revenues increased by 28% year-on-year to RMB19,808 million. Excluding the eCommerce transactions business, revenues increased by 47% year-on-year to RMB19,349 million.

- *VAS.* Revenues from our VAS business increased by 38% year-on-year to RMB16,047 million. Our online game business benefited from growth in PC client games and smart phone games integrated with Mobile QQ and Weixin. Our social networks revenues benefited from increased item sales on mobile platforms and renewed growth of subscription services.
- *Online advertising.* Revenues from our online advertising business increased by 76% year-on-year to RMB2,440 million. This was primarily driven by growth in revenues from video advertising and mobile advertising. Video advertising benefited from underlying viewer growth and the non-recurring impact of the Voice of China 3 and FIFA World Cup. Mobile Qzone contributed to the revenue growth of mobile performance-based social advertising.
- *eCommerce transactions.* Revenues from our eCommerce transactions business decreased by 81% year-on-year to RMB459 million. This primarily reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions.

Profit attributable to equity holders of the Company increased by 46% year-on-year to RMB5,657 million. Non-GAAP profit attributable to equity holders of the Company increased by 47% year-on-year to RMB6,433 million.

Divisional and Product Highlights

Operating Information

	As at 30 September 2014	As at 30 September 2013	Year- on-year change	As at 30 June 2014	Quarter- on-quarter change
MAU of QQ	819.8	815.6	0.5%	829.3	-1.1%
Smart device MAU of QQ	542.2	399.2	35.8%	520.7	4.1%
PCU of QQ (for the quarter)	216.5	178.2	21.5%	205.5	5.4%
Combined MAU of Weixin and WeChat	468.1	336.0	39.3%	438.2	6.8%
MAU of Qzone	628.9	623.3	0.9%	645.1	-2.5%
Smart device MAU of Qzone	506.3	400.4	26.4%	497.0	1.9%
Fee-based VAS registered subscriptions	88.7	89.0	-0.3%	88.0	0.8%

Key Platforms

In the third quarter of 2014, QQ and Qzone benefited from further growth in mobile user base and enhanced user engagement. For QQ, smart device MAU increased by 36% year-on-year to 542 million at the end of the quarter. Mobile QQ experienced enhanced popularity of location-based groups and growth in the user base of Mobile QQ Wallet. New lifestyle services, including shopping, restaurant deals and health monitoring, were integrated with Mobile QQ to deepen its connection with users' daily lives. For Qzone, smart device MAU increased by 26% year-on-year to 506 million at the end of the quarter.

Combined MAU of Weixin and WeChat reached 468 million at the end of the third quarter of 2014, representing year-on-year growth of 39%. We deepened user interaction with the launch of a short video sharing feature, and we improved content discovery through integrated in-application search. Weixin Payment gained popularity as we focused on enhancing its functionalities. We extended the “shake” function to enhance the real-time engagement of Weixin users with TV programmes, such as the Voice of China 3, via interactive games and social sharing.

Our media platforms extended their leadership, supported by robust growth in mobile traffic. Tencent Video achieved significant user growth and deepened user engagement through enriched content, enhanced content management and product innovation. We realigned our organisational resources to better focus on video and mobile, and to leverage our strengths by integrating news and social media.

VAS

In the third quarter of 2014, our social networks business benefited from year-on-year growth in item sales on our mobile platforms. Revenue growth at our subscription services improved, reflecting our enhancements to mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service.

Our online game business continued to expand. For PC client games, the quarter saw a healthy year-on-year revenue increase as we benefited from growth in major titles, recently launched titles and higher contributions from international markets. For mobile games, we consolidated our position as China’s leading publisher for smart phone games. We worked with more third-party developers on new titles and achieved encouraging results. For instance, Modoo Marble was ranked the top game in China’s iOS App Store rankings in August 2014, and Candy Crush Saga became the top game in September 2014, according to App Annie. Total revenues generated from smart phone games integrated with Mobile QQ and Weixin amounted to approximately RMB2.6 billion in the third quarter of 2014, representing a strong year-on-year increase but a sequential revenue decline in the quarter primarily due to delayed launches of upgrades, flowing from the mandated introduction of guest access options in these games. The integration of guest access options was largely completed in October 2014. Looking ahead, we aim to enrich our PC and mobile game portfolios with new titles in different genres.

Online advertising

Our online advertising business achieved rapid year-on-year revenue growth in the third quarter of 2014, driven by video advertising and mobile advertising. The growth in video advertising reflected underlying viewer growth and the non-recurring impact of airing the Voice of China 3 and FIFA World Cup content, while mobile performance-based social advertising benefited from news feed advertising inventory on Mobile Qzone and, to a lesser extent, from advertising on Weixin Official Accounts. Approximately 45% of our performance-based advertising revenues was generated on mobile platforms in the third quarter of 2014.

eCommerce Transactions

In the third quarter of 2014, our eCommerce transactions business continued to experience a significant drop in revenues and costs, though a sequential improvement in gross profit. This reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2014 Compared to Third Quarter of 2013

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

	Unaudited	
	Three months ended	
	30 September	30 September
	2014	2013
	(RMB in millions)	
Revenues	19,808	15,535
Cost of revenues	<u>(7,167)</u>	<u>(7,036)</u>
Gross profit	12,641	8,499
Interest income	452	336
Other gains, net	118	66
Selling and marketing expenses	(1,906)	(1,465)
General and administrative expenses	<u>(3,790)</u>	<u>(2,621)</u>
Operating profit	7,515	4,815
Finance costs, net	(317)	(22)
Share of (losses)/profits of associates and joint ventures	<u>(139)</u>	<u>39</u>
Profit before income tax	7,059	4,832
Income tax expense	<u>(1,383)</u>	<u>(955)</u>
Profit for the period	<u>5,676</u>	<u>3,877</u>
Attributable to:		
Equity holders of the Company	5,657	3,867
Non-controlling interests	<u>19</u>	<u>10</u>
	<u>5,676</u>	<u>3,877</u>
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	<u>6,433</u>	<u>4,371</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 28% to RMB19,808 million for the third quarter of 2014 from the third quarter of 2013. Excluding the eCommerce transactions business, revenues increased by 47% to RMB19,349 million. The following table sets forth our revenues by line of business for the third quarter of 2014 and the third quarter of 2013:

	Unaudited			
	Three months ended			
	30 September 2014		30 September 2013	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	16,047	82%	11,635	75%
Online advertising	2,440	12%	1,390	9%
eCommerce transactions	459	2%	2,359	15%
Others	862	4%	151	1%
	<u>19,808</u>	<u>100%</u>	<u>15,535</u>	<u>100%</u>
Total revenues				

- Revenues from our VAS business increased by 38% to RMB16,047 million for the third quarter of 2014 from the third quarter of 2013. Online games revenues increased by 34% to RMB11,324 million. This primarily reflected revenue growth in PC client games, driven by our major titles, recently launched titles and increased contributions from international markets. Revenues from smart phone games integrated with Mobile QQ and Weixin also grew, with an expanded user base and full quarter revenue contribution compared to the same period last year. Social networks revenues increased by 47% to RMB4,723 million, due to increased item sales on mobile platforms and renewed growth of subscription revenues, as we enhanced our mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service.
- Revenues from our online advertising business increased by 76% to RMB2,440 million for the third quarter of 2014 from the third quarter of 2013. This was driven by: (1) an increase in revenues from video advertising, due to underlying viewer growth and the non-recurring impact of airing the Voice of China 3 and FIFA World Cup content; and (2) enhanced revenues from performance-based social advertising, primarily due to Mobile Qzone.
- Revenues from our eCommerce transactions business decreased by 81% to RMB459 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected a traffic shift to JD.com following our strategic

transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions.

Cost of revenues. Cost of revenues increased by 2% to RMB7,167 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected increases in sharing and content costs, staff costs, and bandwidth and server custody fees, partly offset by a significant decline in cost of merchandise sold due to decreased revenues from principal eCommerce transactions. As a percentage of revenues, cost of revenues decreased to 36% for the third quarter of 2014 from 45% for the third quarter of 2013. Excluding the eCommerce transactions business, cost of revenues increased by 42% to RMB6,821 million. The following table sets forth our cost of revenues by line of business for the third quarter of 2014 and the third quarter of 2013:

	Unaudited			
	Three months ended			
	30 September 2014		30 September 2013	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	5,325	33%	4,069	35%
Online advertising	1,177	48%	662	48%
eCommerce transactions	346	75%	2,220	94%
Others	<u>319</u>	37%	<u>85</u>	56%
Total cost of revenues	<u><u>7,167</u></u>		<u><u>7,036</u></u>	

- Cost of revenues for our VAS business increased by 31% to RMB5,325 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected increases in sharing and content costs, staff costs, and bandwidth and server custody fees due to more user traffic and activity.
- Cost of revenues for our online advertising business increased by 78% to RMB1,177 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected higher investment in video content, including costs related to the Voice of China 3. Commissions payable to advertising agencies also increased.

- Cost of revenues for our eCommerce transactions business decreased by 84% to RMB346 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected a decline in cost of merchandise sold, driven by lower revenues from principal eCommerce transactions.

Other gains, net. Other gains, net increased to RMB118 million for the third quarter of 2014 from RMB66 million for the third quarter of 2013. In the third quarter of 2014, we recognised a deemed disposal gain related to an investee company, as well as impairment provisions for selected investee companies and certain intangible assets arising from acquisitions.

Selling and marketing expenses. Selling and marketing expenses increased by 30% to RMB1,906 million for the third quarter of 2014 from the third quarter of 2013. This was primarily driven by an increase in advertising spending on products and platforms such as online games and online media. As a percentage of revenues, selling and marketing expenses increased to 10% for the third quarter of 2014 from 9% for the third quarter of 2013.

General and administrative expenses. General and administrative expenses increased by 45% to RMB3,790 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected increases in research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses increased to 19% for the third quarter of 2014 from 17% for the third quarter of 2013.

Finance costs, net. Finance costs, net increased to RMB317 million for the third quarter of 2014 from RMB22 million for the third quarter of 2013. This primarily reflected an increase in interest expense driven by higher amount of notes payable, and the recognition of foreign exchange losses due to exchange rate movements in the third quarter of 2014, compared to foreign exchange gains in the same period last year.

Income tax expense. Income tax expense increased by 45% to RMB1,383 million for the third quarter of 2014 from the third quarter of 2013. This primarily reflected higher profit before tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 46% to RMB5,657 million for the third quarter of 2014 from the third quarter of 2013. Non-GAAP profit attributable to equity holders of the Company increased by 47% to RMB6,433 million for the third quarter of 2014 from the third quarter of 2013.

Third Quarter of 2014 Compared to Second Quarter of 2014

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

	Unaudited	
	Three months ended	
	30 September	30 June
	2014	2014
	(RMB in millions)	
Revenues	19,808	19,746
Cost of revenues	<u>(7,167)</u>	<u>(7,574)</u>
Gross profit	12,641	12,172
Interest income	452	406
Other gains, net	118	691
Selling and marketing expenses	(1,906)	(1,973)
General and administrative expenses	<u>(3,790)</u>	<u>(3,453)</u>
Operating profit	7,515	7,843
Finance costs, net	(317)	(354)
Share of (losses)/profits of associates and joint ventures	<u>(139)</u>	<u>23</u>
Profit before income tax	7,059	7,512
Income tax expense	<u>(1,383)</u>	<u>(1,686)</u>
Profit for the period	<u>5,676</u>	<u>5,826</u>
Attributable to:		
Equity holders of the Company	5,657	5,836
Non-controlling interests	<u>19</u>	<u>(10)</u>
	<u>5,676</u>	<u>5,826</u>
Non-GAAP profit attributable to equity holders of the Company ⁽¹⁾	<u>6,433</u>	<u>5,874</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 were RMB19,808 million for the third quarter of 2014, broadly stable compared to the second quarter of 2014. Excluding the eCommerce transactions business, revenues increased by 5% to RMB19,349 million. The following table sets forth our revenues by line of business for the third quarter of 2014 and the second quarter of 2014:

	Unaudited			
	Three months ended			
	30 September 2014		30 June 2014	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	16,047	82%	15,713	80%
Online advertising	2,440	12%	2,064	10%
eCommerce transactions	459	2%	1,324	7%
Others	862	4%	645	3%
Total revenues	<u>19,808</u>	<u>100%</u>	<u>19,746</u>	<u>100%</u>

- Revenues from our VAS business increased by 2% to RMB16,047 million for the third quarter of 2014 from the second quarter of 2014. Online games revenues increased by 2% to RMB11,324 million. This primarily reflected higher revenues from PC client games, which benefited from positive seasonality for ACGs in China, contributions from recently launched titles and increased revenues from international markets, partly offset by reduced revenues from smart phone games integrated with Mobile QQ and Weixin driven by delayed launches of expansion packs. Social networks revenues increased by 2% to RMB4,723 million. This was primarily driven by healthy sequential growth in subscription revenues, which benefited from enhanced mobile privileges and improved mobile user experience for QQ Membership, Super VIP and Qzone subscription service.
- Revenues from our online advertising business increased by 18% to RMB2,440 million for the third quarter of 2014 from the second quarter of 2014. This was driven by: (1) an increase in revenues from video advertising, reflecting the non-recurring impact of airing the Voice of China 3; and (2) enhanced revenues from performance-based social advertising, primarily due to Mobile Qzone.

- Revenues from our eCommerce transactions business decreased by 65% to RMB459 million for the third quarter of 2014 from the second quarter of 2014. This primarily reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions.

Cost of revenues. Cost of revenues decreased by 5% to RMB7,167 million for the third quarter of 2014 from the second quarter of 2014. This primarily reflected a decline in cost of merchandise sold due to decreased revenues from principal eCommerce transactions, partially offset by an increase in sharing and content costs. As a percentage of revenues, cost of revenues decreased to 36% for the third quarter of 2014 from 38% for the second quarter of 2014. Excluding the eCommerce transactions business, cost of revenues increased by 11% to RMB6,821 million. The following table sets forth our cost of revenues by line of business for the third quarter of 2014 and the second quarter of 2014:

	Unaudited			
	Three months ended			
	30 September 2014		30 June 2014	
		% of		% of
	Amount	segment	Amount	segment
		revenues		revenues
	(RMB in millions, unless specified)			
VAS	5,325	33%	4,755	30%
Online advertising	1,177	48%	1,140	55%
eCommerce transactions	346	75%	1,416	107%
Others	<u>319</u>	37%	<u>263</u>	41%
Total cost of revenues	<u><u>7,167</u></u>		<u><u>7,574</u></u>	

- Cost of revenues for our VAS business increased by 12% to RMB5,325 million for the third quarter of 2014 from the second quarter of 2014. This was primarily driven by an increase in sharing and content costs, including provisions against incentives for certain licensed content. Staff costs also increased.
- Cost of revenues for our online advertising business increased by 3% to RMB1,177 million for the third quarter of 2014 from the second quarter of 2014. This primarily reflected increases in commissions payable to advertising agencies and staff costs.

- Cost of revenues for our eCommerce transactions business decreased by 76% to RMB346 million for the third quarter of 2014 from the second quarter of 2014. This primarily reflected a decline in cost of merchandise sold, driven by lower revenues from principal eCommerce transactions.

Other gains, net. Other gains, net decreased by 83% to RMB118 million for the third quarter of 2014 from the second quarter of 2014. The decrease was primarily driven by significantly lower deemed disposal gains related to investee companies.

Selling and marketing expenses. Selling and marketing expenses decreased by 3% to RMB1,906 million for the third quarter of 2014 from the second quarter of 2014. The decrease primarily reflected lower fulfillment expenses as a result of decreased revenues from principal eCommerce transactions. Promotional and advertising expenses declined as well, reflecting significantly lower subsidies for booking taxi rides, partly offset by an increase in advertising spending on products and platforms such as online games and online media. As a percentage of revenues, selling and marketing expenses was 10% for the third quarter of 2014, broadly stable compared to the second quarter of 2014.

General and administrative expenses. General and administrative expenses increased by 10% to RMB3,790 million for the third quarter of 2014 from the second 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 19% for the third quarter of 2014 from 17% for the second quarter of 2014.

Finance costs, net. Finance costs, net decreased by 10% to RMB317 million for the third quarter of 2014 from the second quarter of 2014. This primarily reflected lower foreign exchange losses, partly offset by an increase in interest expense driven by the full quarter impact of long-term notes issued in the previous quarter.

Income tax expense. Income tax expense decreased by 18% to RMB1,383 million for the third quarter of 2014 from the second quarter of 2014. In the third quarter of 2014, profit before tax and deferred tax liabilities in respect of withholding taxes decreased sequentially.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 3% to RMB5,657 million for the third quarter of 2014 from the second quarter of 2014. Non-GAAP profit attributable to equity holders of the Company increased by 10% to RMB6,433 million for the third quarter of 2014 from the second quarter of 2014.

Other Financial Information

	Unaudited		Unaudited		
	Nine months ended		Three months ended		
	30 September	30 September	30 September	30 June	30 September
	2014	2013	2014	2014	2013
	(RMB in millions, unless specified)				
EBITDA (a)	22,979	15,382	8,174	8,018	5,257
Adjusted EBITDA (a)	24,286	16,267	8,720	8,445	5,601
Adjusted EBITDA margin (b)	42%	37%	44%	43%	36%
Interest expense	602	289	266	224	99
Net cash (c)	21,283	34,400	21,283	22,485	34,400
Capital expenditures (d)	3,115	4,120	1,060	917	1,621

Note:

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

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

	Unaudited Nine months ended		Unaudited Three months ended		
	30 September 2014	30 September 2013	30 September 2014	30 June 2014	30 September 2013
	(RMB in millions, unless specified)				
Operating profit	23,148	14,443	7,515	7,843	4,815
Adjustments:					
Interest income	(1,233)	(937)	(452)	(406)	(336)
Other (gains)/losses, net	(2,416)	(499)	(118)	(691)	(66)
Depreciation of fixed assets and investment properties	2,227	1,804	760	763	644
Amortisation of intangible assets	<u>1,253</u>	<u>571</u>	<u>469</u>	<u>509</u>	<u>200</u>
EBITDA	22,979	15,382	8,174	8,018	5,257
Equity-settled share-based compensation	<u>1,307</u>	<u>885</u>	<u>546</u>	<u>427</u>	<u>344</u>
Adjusted EBITDA	<u>24,286</u>	<u>16,267</u>	<u>8,720</u>	<u>8,445</u>	<u>5,601</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 Group's non-GAAP financial measures for the first nine months of 2014 and 2013, the third quarter of 2014 and 2013, and the second quarter of 2014 to the nearest measures prepared in accordance with IFRS:

Unaudited nine months ended 30 September 2014								
		Adjustments						
		(Gains)/losses						
		Cash-settled	on deemed	Amortisation	Impairment	Special		
		share-based	disposals/	of intangible	provision	dividend		
		compensation	disposals	assets		income		
As reported	Equity-settled share-based compensation	(a)	(b)	(c)	(d)	(e)	Non-GAAP ⁽¹⁾	
(RMB in millions, unless specified)								
Operating profit	23,148	1,307	546	(3,958)	46	1,340	–	22,429
Profit for the period	17,934	1,307	546	(3,883)	335	1,340	–	17,579
Profit attributable to equity holders	17,950	1,282	501	(3,896)	328	1,336	–	17,501
EPS ⁽²⁾ (RMB per share)								
- basic	1.948							1.899
- diluted	1.918							1.870
Operating margin	40%							39%
Net margin	31%							30%

Unaudited three months ended 30 June 2014

	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	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 30 September 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	4,815	344	134	(5)	38	–	–	5,326
Profit for the period	3,877	344	134	(5)	58	–	–	4,408
Profit attributable to equity holders	3,867	340	119	(5)	50	–	–	4,371
EPS ⁽²⁾ (RMB per share)								
- basic	0.421							0.476
- diluted	0.414							0.468
Operating margin	31%							34%
Net margin	25%							28%

⁽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⁾ Since the second quarter of 2014, EPS has been 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, available-for-sale financial assets and intangible assets arising from acquisitions
- (e) Special dividend income from Mail.ru

Liquidity and Financial Resources

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

	Unaudited 30 September 2014	Unaudited 30 June 2014
	(RMB in millions)	
Cash and cash equivalents	33,454	32,639
Term deposits	<u>22,126</u>	<u>24,858</u>
	55,580	57,497
Borrowings	(8,247)	(8,820)
Notes payable	<u>(26,050)</u>	<u>(26,192)</u>
Net cash	<u>21,283</u>	<u>22,485</u>

As at 30 September 2014, the Group had net cash of RMB21,283 million. The sequential decrease in net cash was primarily driven by payments for investments in investee companies, particularly mobile game developers and O2O service providers, partly offset by free cash flow generated during the third quarter of 2014. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB61 billion as at 30 September 2014.

As at 30 September 2014, RMB6,397 million of our financial resources were held in deposits denominated in non-RMB currencies.

For the third quarter of 2014, the Group had free cash flow of RMB6,974 million. This was a result of net cash generated from operating activities of RMB8,219 million, offset by payment for capital expenditure of RMB1,245 million.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2014

		Unaudited 30 September 2014	Audited 31 December 2013
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Fixed assets		8,231	8,693
Construction in progress		2,806	2,041
Investment properties		269	—
Land use rights		822	871
Intangible assets		4,331	4,103
Interests in associates	3	49,817	12,170
Investments in joint ventures		18	9
Deferred income tax assets		289	431
Available-for-sale financial assets	4	13,735	12,515
Prepayments, deposits and other assets		1,194	1,296
Term deposits		<u>4,931</u>	<u>11,420</u>
		<u>86,443</u>	<u>53,549</u>
Current assets			
Inventories		154	1,384
Accounts receivable	5	4,293	2,955
Prepayments, deposits and other assets		7,660	5,365
Term deposits		17,195	19,623
Restricted cash		6,696	4,131
Cash and cash equivalents		<u>33,454</u>	<u>20,228</u>
		<u>69,452</u>	<u>53,686</u>
Total assets		<u><u>155,895</u></u>	<u><u>107,235</u></u>

		Unaudited	Audited
		30 September	31 December
		2014	2013
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		4,062	2,846
Shares held for share award schemes		(1,312)	(871)
Other reserves		3,623	3,746
Retained earnings		<u>68,413</u>	<u>52,224</u>
		74,786	57,945
Non-controlling interests		<u>608</u>	<u>518</u>
Total equity		<u>75,394</u>	<u>58,463</u>
LIABILITIES			
Non-current liabilities			
Borrowings	7	5,537	3,323
Notes payable	8	24,207	9,141
Deferred income tax liabilities		2,176	1,441
Long-term payables		1,272	1,600
Deferred revenue		<u>3,732</u>	<u>—</u>
		36,924	15,505
Current liabilities			
Accounts payable	9	7,441	6,680
Other payables and accruals		14,966	10,246
Borrowings	7	2,710	2,589
Notes payable	8	1,843	—
Current income tax liabilities		1,123	1,318
Other tax liabilities		541	593
Deferred revenue		<u>14,953</u>	<u>11,841</u>
		43,577	33,267
Total liabilities		<u>80,501</u>	<u>48,772</u>
Total equity and liabilities		<u>155,895</u>	<u>107,235</u>
Net current assets		<u>25,875</u>	<u>20,419</u>
Total assets less current liabilities		<u>112,318</u>	<u>73,968</u>

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2014**

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2014	2013	2014	2013
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
		16,047	11,635	46,173	33,053
		2,440	1,390	5,681	3,537
		459	2,359	4,307	6,472
		<u>862</u>	<u>151</u>	<u>1,793</u>	<u>405</u>
		19,808	15,535	57,954	43,467
Cost of revenues	11	<u>(7,167)</u>	<u>(7,036)</u>	<u>(22,541)</u>	<u>(19,580)</u>
Gross profit		12,641	8,499	35,413	23,887
Interest income		452	336	1,233	937
Other gains, net	10	118	66	2,416	499
Selling and marketing expenses	11	<u>(1,906)</u>	<u>(1,465)</u>	<u>(5,734)</u>	<u>(3,662)</u>
General and administrative expenses	11	<u>(3,790)</u>	<u>(2,621)</u>	<u>(10,180)</u>	<u>(7,218)</u>
Operating profit		7,515	4,815	23,148	14,443
Finance costs, net		(317)	(22)	(909)	(90)
Share of (losses)/profits of associates and joint ventures		<u>(139)</u>	<u>39</u>	<u>(72)</u>	<u>189</u>
Profit before income tax		7,059	4,832	22,167	14,542
Income tax expense	12	<u>(1,383)</u>	<u>(955)</u>	<u>(4,233)</u>	<u>(2,910)</u>
Profit for the period		<u>5,676</u>	<u>3,877</u>	<u>17,934</u>	<u>11,632</u>

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Attributable to:					
Equity holders of the Company		5,657	3,867	17,950	11,591
Non-controlling interests		<u>19</u>	<u>10</u>	<u>(16)</u>	<u>41</u>
		<u>5,676</u>	<u>3,877</u>	<u>17,934</u>	<u>11,632</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
			Restated		Restated
- basic	13	<u>0.612</u>	<u>0.421</u>	<u>1.948</u>	<u>1.264</u>
- diluted	13	<u>0.605</u>	<u>0.414</u>	<u>1.918</u>	<u>1.242</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2014**

	Unaudited Three months ended 30 September 2014		Unaudited Nine months ended 30 September 2013	
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	<u>5,676</u>	<u>3,877</u>	<u>17,934</u>	<u>11,632</u>
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	30	—	43	—
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(959)	2,233	(266)	1,995
Currency translation differences	<u>(15)</u>	<u>30</u>	<u>(9)</u>	<u>(10)</u>
	<u>(944)</u>	<u>2,263</u>	<u>(232)</u>	<u>1,985</u>
Total comprehensive income for the period	<u><u>4,732</u></u>	<u><u>6,140</u></u>	<u><u>17,702</u></u>	<u><u>13,617</u></u>
Attributable to:				
Equity holders of the Company	4,711	6,128	17,708	13,581
Non-controlling interests	<u>21</u>	<u>12</u>	<u>(6)</u>	<u>36</u>
	<u><u>4,732</u></u>	<u><u>6,140</u></u>	<u><u>17,702</u></u>	<u><u>13,617</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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	–	–	–	–	17,950	17,950	(16)	17,934
Other comprehensive income:								
- share of other comprehensive income of associates	–	–	–	43	–	43	–	43
- net losses from changes in fair value of available-for-sale financial assets	–	–	–	(266)	–	(266)	–	(266)
- currency translation differences	–	–	–	(19)	–	(19)	10	(9)
Total comprehensive income for the period	–	–	–	(242)	17,950	17,708	(6)	17,702
Transaction with owners								
Capital injection	–	–	–	–	–	–	44	44
Employee share option schemes:								
- value of employee services	–	118	–	88	–	206	19	225
- proceeds from shares issued	–	244	–	–	–	244	–	244
Employee share award schemes:								
- value of employee services	–	979	–	97	–	1,076	6	1,082
- shares purchased for Share Award Schemes	–	–	(505)	–	–	(505)	–	(505)
- vesting of awarded shares	–	(64)	64	–	–	–	–	–
Repurchase and cancellation of shares	–	(61)	–	–	–	(61)	–	(61)
Dividends (Note 14)	–	–	–	–	(1,761)	(1,761)	(119)	(1,880)
Total contributions by and distributions to owners for the period	–	1,216	(441)	185	(1,761)	(801)	(50)	(851)
Non-controlling interests arising from business combination	–	–	–	–	–	–	106	106
Disposal of equity interests in non-wholly owned subsidiaries	–	–	–	230	–	230	4	234
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(653)	–	(653)	36	(617)
Settlement of financial liabilities in respect of the put option granted to non-controlling interests owners	–	–	–	357	–	357	–	357
Total transactions with owners for the period	–	1,216	(441)	119	(1,761)	(867)	96	(771)
Balance at 30 September 2014	–	4,062	(1,312)	3,623	68,413	74,786	608	75,394

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	—	—	—	—	11,591	11,591	41	11,632
Other comprehensive income:								
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	1,995	—	1,995	—	1,995
- currency translation differences	—	—	—	(5)	—	(5)	(5)	(10)
Total comprehensive income for the period	—	—	—	1,990	11,591	13,581	36	13,617
Transaction with owners								
Capital injection	—	—	—	—	—	—	5	5
Employee share option schemes:								
- value of employee services	—	66	—	47	—	113	6	119
- proceeds from shares issued	—	234	—	—	—	234	—	234
Employee share award schemes:								
- value of employee services	—	747	—	17	—	764	2	766
- shares purchased for Share Award Schemes	—	—	(261)	—	—	(261)	—	(261)
- vesting of awarded shares	—	(70)	70	—	—	—	—	—
Repurchase and cancellation of shares	—	(1,323)	—	—	—	(1,323)	—	(1,323)
Dividends	—	—	—	—	(1,468)	(1,468)	(60)	(1,528)
Total contributions by and distributions to owners for the period	—	(346)	(191)	64	(1,468)	(1,941)	(47)	(1,988)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	(57)	—	(57)	(33)	(90)
Total transactions with owners for the period	—	(346)	(191)	7	(1,468)	(1,998)	(80)	(2,078)
Balance at 30 September 2013	—	2,534	(858)	2,813	48,392	52,881	806	53,687

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014**

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	22,032	17,510
Net cash flows used in investing activities	(25,623)	(13,984)
Net cash flows generated from financing activities	<u>16,937</u>	<u>1,852</u>
Net increase in cash and cash equivalents	13,346	5,378
Cash and cash equivalents at beginning of period	20,228	13,383
Exchange losses on cash and cash equivalents	<u>(120)</u>	<u>(158)</u>
Cash and cash equivalents at end of period	<u>33,454</u>	<u>18,603</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	11,904	10,642
Term deposits and highly liquid investments with initial term within three months	<u>21,550</u>	<u>7,961</u>
	<u>33,454</u>	<u>18,603</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 September 2014, the related consolidated income statement and the consolidated statement of comprehensive income for the three and nine months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine 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 12 November 2014.

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

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

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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2014 and 2013 is as follows:

	Unaudited				
	Three months ended 30 September 2014				
	VAS	Online advertising	eCommerce transactions	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>16,047</u>	<u>2,440</u>	<u>459</u>	<u>862</u>	<u>19,808</u>
Gross profit	<u>10,722</u>	<u>1,263</u>	<u>113</u>	<u>543</u>	<u>12,641</u>
Depreciation	488	40	3	6	537
Amortisation	82	334	–	–	416
Share of (losses)/profits of associates and joint ventures	<u>(68)</u>	<u>(92)</u>	<u>(78)</u>	<u>99</u>	<u>(139)</u>

	Unaudited				
	Three months ended 30 September 2013				
	VAS	Online	eCommerce	Others	Total
RMB'Million	advertising	transactions	RMB'Million	RMB'Million	
Segment revenues	<u>11,635</u>	<u>1,390</u>	<u>2,359</u>	<u>151</u>	<u>15,535</u>
Gross profit	<u>7,566</u>	<u>728</u>	<u>139</u>	<u>66</u>	<u>8,499</u>
Depreciation	430	36	4	5	475
Amortisation	64	72	–	–	136
Share of profits/(losses) of associates and joint ventures	<u>33</u>	<u>–</u>	<u>(22)</u>	<u>28</u>	<u>39</u>

	Unaudited				
	Nine months ended 30 September 2014				
	VAS	Online	eCommerce	Others	Total
RMB'Million	advertising	transactions	RMB'Million	RMB'Million	
Segment revenues	<u>46,173</u>	<u>5,681</u>	<u>4,307</u>	<u>1,793</u>	<u>57,954</u>
Gross profit	<u>31,722</u>	<u>2,598</u>	<u>123</u>	<u>970</u>	<u>35,413</u>
Depreciation	1,429	117	11	17	1,574
Amortisation	171	932	–	–	1,103
Share of (losses)/profits of associates and joint ventures	<u>31</u>	<u>(131)</u>	<u>(254)</u>	<u>282</u>	<u>(72)</u>

	Unaudited				
	Nine months ended 30 September 2013				
	VAS	Online	eCommerce	Others	Total
RMB'Million	advertising	transactions	RMB'Million	RMB'Million	
Segment revenues	<u>33,053</u>	<u>3,537</u>	<u>6,472</u>	<u>405</u>	<u>43,467</u>
Gross profit	<u>21,555</u>	<u>1,771</u>	<u>397</u>	<u>164</u>	<u>23,887</u>
Depreciation	1,205	100	11	14	1,330
Amortisation	186	191	–	–	377
Share of profits/(losses) of associates and joint ventures	<u>130</u>	<u>–</u>	<u>(35)</u>	<u>94</u>	<u>189</u>

3 Interests in associates

	Unaudited	Audited
	30 September	31 December
	2014	2013
	RMB'Million	RMB'Million
Investments in associates (a)		
- Listed shares	29,510	1,426
- Unlisted shares	<u>17,421</u>	<u>9,441</u>
	46,931	10,867
Investments in redeemable preference shares of associates (b)	2,883	1,119
Loans to associates	<u>3</u>	<u>184</u>
	<u>49,817</u>	<u>12,170</u>

Note:

(a) Investments in associates

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	10,867	6,310
Additions ((i), (ii), (iii), (iv), (v), (vi) and (vii))	35,923	2,340
Deemed disposal gains	1,226	–
Share of (losses)/profits of associates	(71)	227
Share of other comprehensive income of associates	43	–
Dividends from associates	(148)	(34)
Disposal of associates	(261)	(133)
Impairment provision (viii)	(468)	–
Currency translation differences	<u>(180)</u>	<u>–</u>
At end of period	<u>46,931</u>	<u>8,710</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 of Yixun, which is a non-wholly owned subsidiary of the Group, with a call option granted to acquire the remaining equity interests held by the Group in Yixun at the higher of RMB800 million and the then fair value of the interests.

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

On 22 May 2014, the American depository shares of JD.com began to be listed on NASDAQ (the “JD.com IPO”), and the Group further acquired 5.0% of JD.com’s equity capital on a fully-diluted basis at a cash consideration of approximately USD1,325 million (equivalent to RMB8,161 million). As of 30 September 2014, the Group’s equity interests of JD.com were approximately 16.04% 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 began to be 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). As a result, the Group’s equity interests of Leju were approximately 15.0% on a fully-diluted basis.

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

- (iii) In April 2014, the Group entered into an agreement to acquire approximately 11.28% of the total issued share capital of 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 its total equity capital on a fully-diluted basis, at a consideration of approximately USD736 million (equivalent to approximately RMB4,541 million). In addition, the Group acquired additional 4.1% of the total equity capital of 58.com on a fully-diluted basis at a total consideration of USD140 million (equivalent to approximately RMB863 million) in September 2014. As a result, the Group's equity interests of 58.com were approximately 24.0% on a fully-diluted basis. 58.com operates a classified listings platform in the PRC.

The total consideration of the investment in 58.com is approximately RMB5,404 million.

- (v) In January 2014, the Group entered into an agreement to subscribe approximately 680 million newly issued ordinary shares of CSC at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). In addition, the Group had a call option to subscribe further approximately 245 million new shares of CSC within 2 years after its initial investment made in CSC. During the three months ended 30 September 2014, the Group exercised the call option at a total consideration of HKD823 million (equivalent to approximately RMB654 million). As a result, the Group held approximately 925 million shares in aggregate in CSC, which represents approximately 11.55% of issued share capital of CSC. CSC is a developer and operator of large scale integrated logistics and trade centers in the PRC.

The total consideration of the investment in CSC is approximately RMB1,831 million.

- (vi) In March 2014, the Group entered into a series of agreements, and upon the completion in August 2014, the Group started to own, in aggregate, approximately 28.0% of the total outstanding shares of CJ Games. CJ Games is an online and mobile games developer and publisher in Korea.

The total consideration of the investment in CJ Games is KRW533,000 million (equivalent to approximately RMB3,231 million).

- (vii) In addition to the above, the Group also acquired some other associates, or made additional investments into existing associates, for an aggregate consideration of RMB6,098 million during the nine months ended 30 September 2014. These investee companies are principally engaged in O2O daily life information business, mobile games business and other Internet-related businesses.

- (viii) During the nine months ended 30 September 2014, the Group made an impairment provision of RMB468 million (for the nine months ended 30 September 2013: Nil) against the carrying amount of its investments in certain associates, based on the assessment results performed on the carrying amounts of these investments with reference to their business performance and their underlying recoverable amount.

(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.

In August 2014, the Group subscribed for minority interest in a company providing Internet platform services, at a total consideration of USD145 million (equivalent to approximately RMB893 million).

During the nine months ended 30 September 2014, the Group also made an impairment provision of RMB321 million (for the nine months ended 30 September 2013: Nil) against investments in redeemable preference shares of certain associates with reference to their business performance and the assessed recoverable amount of these investments.

4 Available-for-sale financial assets

	Unaudited	Audited
	30 September	31 December
	2014	2013
	RMB'Million	RMB'Million
Available-for-sale financial assets		
- Listed securities (a)	4,641	6,245
- Unlisted securities	<u>9,094</u>	<u>6,270</u>
	<u>13,735</u>	<u>12,515</u>

Movement in the unlisted securities is analysed as follows:

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	6,270	1,550
Additions (b)	1,931	827
Gains from changes in fair value	1,372	—
Transfer to interests in associates	(71)	—
Impairment provision (c)	(369)	—
Currency translation differences	<u>(39)</u>	<u>—</u>
At end of period, all non-current	<u>9,094</u>	<u>2,377</u>

Note:

- (a) The losses from changes in fair value recognised for the listed securities during the nine months ended 30 September 2014 were RMB1,661 million (for the nine months ended 30 September 2013: gains from changes in fair value were RMB2,296 million).
- (b) The Group acquired certain other available-for-sale financial assets or made additional investments in certain existing available-for-sale financial assets at an aggregate consideration of RMB1,931 million during the nine months ended 30 September 2014. They are principally engaged in O2O business and other Internet-related businesses.
- (c) During the nine months ended 30 September 2014, the Group made an impairment provision of RMB369 million (for the nine months ended 30 September 2013: Nil) against the carrying amount of its investments in certain unlisted available-for-sale financial assets, with reference to their business performance and their assessed recoverable amount.

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited 30 September 2014 RMB'Million	Audited 31 December 2013 RMB'Million
0 - 30 days	2,391	1,537
31 - 60 days	598	827
61 - 90 days	634	369
Over 90 days	<u>670</u>	<u>222</u>
	<u>4,293</u>	<u>2,955</u>

Receivable balances as at 30 September 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 becoming effective, pro-rata adjustments have been made to the exercise prices and the number of outstanding share options, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision.

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)	–	–	HKD123.95	2,133,050	–	–	2,133,050
Exercised before the Share Subdivision (1)	HKD11.25	(819,224)	HKD46.54	(2,896,392)	–	–	(3,715,616)
Exercised after the Share Subdivision (2)	–	–	HKD8.99	(18,089,583)	–	–	(18,089,583)
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)
Effect of Share Subdivision (3)		–		<u>45,836,452</u>		<u>4,000,000</u>	<u>49,836,452</u>
At 30 September 2014 (2)	–	–	HKD52.63	<u>41,338,932</u>	HKD31.70	<u>5,000,000</u>	<u>46,338,932</u>
Exercisable as at 30 September 2014 (2)	–	–	HKD17.02	<u>16,898,927</u>	–	–	<u>16,898,927</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)	HKD11.46	(2,122,284)	HKD42.77	(6,263,341)	–	–	(8,385,625)
Lapsed (1)	HKD5.50	(75)	HKD119.71	(325,588)	–	–	(325,663)
At 30 September 2013 (1)	HKD10.85	<u>2,474,130</u>	HKD74.38	<u>14,044,168</u>	HKD158.50	<u>1,000,000</u>	<u>17,518,298</u>
Exercisable as at 30 September 2013 (1)	HKD10.85	<u>2,474,130</u>	HKD52.97	<u>8,808,348</u>	–	–	<u>11,282,478</u>

Note:

- (1) The numbers of shares and average exercise price were presented as before the effect of the Share Subdivision.
- (2) The numbers of shares and average exercise price were presented as after the effect of the Share Subdivision.
- (3) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

During the nine months ended 30 September 2014, 1,000,000 share options (before the effect of the Share Subdivision) were granted to an executive director of the Company (for the nine months ended 30 September 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 administered by an independent trustee appointed by the Group. The vesting period of the awarded share is determined by the Board.

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

Movements in the number of shares held for the Share Award Schemes and awarded shares for the nine months ended 30 September 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)	5,016,225	–	5,016,225
Allotted after the Share Subdivision (ii)	19,520,635	–	19,520,635
Granted before the Share Subdivision (i)	(1,183,445)	1,183,445	–
Granted after the Share Subdivision (ii)	(17,055,300)	17,055,300	–
Lapsed before the Share Subdivision (i)	461,220	(461,220)	–
Lapsed after the Share Subdivision (ii)	2,186,124	(2,186,124)	–
Vested and transferred before the Share Subdivision (i)	–	(226,797)	(226,797)
Vested and transferred after the Share Subdivision (ii)	–	(25,115,469)	(25,115,469)
Effect of Share Subdivision (iii)	<u>2,980,068</u>	<u>74,245,696</u>	<u>77,225,764</u>
At 30 September 2014 (ii)	<u>13,392,769</u>	<u>82,560,827</u>	<u>95,953,596</u>
Vested but not transferred as at 30 September 2014 (ii)			<u>78,495</u>

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2013 (i)	405,230	18,944,442	19,349,672
Purchased and withheld (i)	951,506	–	951,506
Allotted (i)	4,058,740	–	4,058,740
Granted (i)	(5,090,305)	5,090,305	–
Lapsed (i)	878,339	(878,339)	–
Vested and transferred (i)	<u>–</u>	<u>(4,678,316)</u>	<u>(4,678,316)</u>
At 30 September 2013 (i)	<u>1,203,510</u>	<u>18,478,092</u>	<u>19,681,602</u>
Vested but not transferred as at 30 September 2013 (i)			<u>–</u>

Note:

- (i) The numbers of shares were presented as before the effect of the Share Subdivision.
- (ii) The numbers of shares were presented as after the effect of the Share Subdivision.
- (iii) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

During the nine months ended 30 September 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 nine months ended 30 September 2013: no awarded share was granted to any director of the Company).

7 Borrowings

	Unaudited	Audited
	30 September	31 December
	2014	2013
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
- Unsecured (Note)	<u>5,537</u>	<u>3,323</u>
Included in current liabilities:		
RMB bank borrowings		
- Unsecured	125	150
USD bank borrowings		
- Unsecured	1,231	2,134
Current portion of long-term USD bank borrowings		
- Unsecured (Note)	<u>1,354</u>	<u>305</u>
	<u>2,710</u>	<u>2,589</u>
	<u>8,247</u>	<u>5,912</u>

Movement in the borrowings is analysed as follows:

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	5,912	3,183
Additions of bank borrowings	6,200	5,086
Repayments of bank borrowings	(3,942)	(2,187)
Currency translation differences	<u>77</u>	<u>(75)</u>
At end of period	<u>8,247</u>	<u>6,007</u>

Note:

The aggregate principal amount of long-term USD bank borrowings was USD1,120 million. Applicable interest rates are at LIBOR plus 1.37% to 1.97% per annum.

8 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 are 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 bear 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 bear an interest at 3.375% per annum, payable semi-annually in arrears on 2 November and 2 May of each year, beginning on 2 November 2014. The net proceeds from the issuance of the 2014 Notes I and the 2014 Notes II amounted to approximately USD2,488 million (equivalent to approximately RMB15,306 million), after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. Both of the 2014 Notes I and 2014 Notes II are listed on the Stock Exchange.

On 16 May 2014, the Company issued the third 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 bear 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 are listed on the Stock Exchange.

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

As at 30 September 2014, the carrying amount of these notes was RMB26,050 million (31 December 2013: RMB9,141 million).

9 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 September 2014 RMB'Million	Audited 31 December 2013 RMB'Million
0 - 30 days	3,869	4,063
31 - 60 days	1,144	1,147
61 - 90 days	879	366
Over 90 days	<u>1,549</u>	<u>1,104</u>
	<u><u>7,441</u></u>	<u><u>6,680</u></u>

10 Other gains, net

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Gains on disposals/deemed disposals of investees and businesses (Note)	159	—	3,958	25
Subsidies and tax rebates	11	113	63	169
Dividend income	7	6	76	451
Impairment provision for investees	(122)	—	(1,267)	—
Donation to Tencent Charity Fund	—	—	(250)	(120)
Others	<u>63</u>	<u>(53)</u>	<u>(164)</u>	<u>(26)</u>
	<u><u>118</u></u>	<u><u>66</u></u>	<u><u>2,416</u></u>	<u><u>499</u></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)) amounting to 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		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (a)	4,215	2,714	11,235	7,716
Content costs and agency fees (b)	3,002	2,336	7,849	6,389
Cost of merchandise sold	336	2,154	4,083	5,890
Promotion and advertising expenses	1,431	988	4,199	2,435
Mobile and telecommunications charges and bandwidth and server custody fees	1,370	1,046	3,881	3,066
Depreciation of fixed assets (a)	759	644	2,224	1,804
Amortisation of intangible assets (b)	469	200	1,253	571
Operating lease rentals in respect of office buildings	256	227	769	642
Travelling and entertainment expenses	141	134	350	299

Note:

- (a) Research and development expenses for the three and nine months ended 30 September 2014 were RMB2,027 million and RMB5,420 million (for the three and nine months ended 30 September 2013: RMB1,353 million and RMB3,794 million, respectively), which included employee benefit expenses of RMB1,645 million and depreciation of fixed assets of RMB163 million for the three months ended 30 September 2014 (for the three months ended 30 September 2013: RMB1,066 million and RMB143 million, respectively) and employee benefit expenses of RMB4,337 million and depreciation of fixed assets of RMB475 million for the nine months ended 30 September 2014 (for the nine months ended 30 September 2013: RMB3,055 million and RMB401 million, respectively). No research and development expenses had been capitalised for the three and nine months ended 30 September 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 the British Virgin Islands for the three and nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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, 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 September 2014, these subsidiaries were in the process of renewing such entitlement by applying to the relevant government authorities. The directors of the Company performed an assessment on each subsidiaries on the likelihood of obtaining the renewal and applied the respective applicable CIT rates (15% or 25%), to make their CIT provision for the three and nine months ended 30 September 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 the preferential rate of 10%.

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

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

United States CIT provision was provided for the three and nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2014 and 2013 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current tax	1,096	828	2,749	2,597
Deferred income tax	<u>287</u>	<u>127</u>	<u>1,484</u>	<u>313</u>
	<u>1,383</u>	<u>955</u>	<u>4,233</u>	<u>2,910</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 nine months ended 30 September 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		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit before income tax	7,059	4,832	22,167	14,542
Share of losses/(profits) of associates and joint ventures	<u>139</u>	<u>(39)</u>	<u>72</u>	<u>(189)</u>
	<u>7,198</u>	<u>4,793</u>	<u>22,239</u>	<u>14,353</u>
Tax calculated at a tax rate of 25%	1,800	1,198	5,560	3,588
Effects of different tax rates applicable to different subsidiaries of the Group	(838)	(405)	(3,347)	(1,254)
Effects of tax holiday on assessable profits of subsidiaries	(139)	(93)	(324)	(136)
Income not subject to tax	—	(43)	—	(122)
Expenses not deductible for tax purposes	261	84	764	239
Withholding tax on earnings expected to be remitted by PRC subsidiaries	230	135	1,030	347
Unrecognised deferred income tax assets	69	79	547	229
Others	<u>—</u>	<u>—</u>	<u>3</u>	<u>19</u>
Income tax expense	<u>1,383</u>	<u>955</u>	<u>4,233</u>	<u>2,910</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 September 2014		Unaudited Nine months ended 30 September 2014	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (RMB' Million)	<u>5,657</u>	<u>3,867</u>	<u>17,950</u>	<u>11,591</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	<u>9,243</u>	<u>9,186</u>	<u>9,216</u>	<u>9,173</u>
Basic EPS (Note) (RMB per share)	<u><u>0.612</u></u>	<u><u>0.421</u></u>	<u><u>1.948</u></u>	<u><u>1.264</u></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), taking into account the effect of the Share Subdivision. 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 nine months ended 30 September 2014 and 2013, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (RMB' Million)	<u>5,657</u>	<u>3,867</u>	<u>17,950</u>	<u>11,591</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	9,243	9,186	9,216	9,173
Adjustments for share options (Note) (million shares)	29	76	53	87
Adjustments for awarded shares (Note) (million shares)	<u>80</u>	<u>76</u>	<u>92</u>	<u>76</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (Note) (million shares)	<u>9,352</u>	<u>9,338</u>	<u>9,361</u>	<u>9,336</u>
Diluted EPS(Note) (RMB per share)	<u>0.605</u>	<u>0.414</u>	<u>1.918</u>	<u>1.242</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, which excluded the dividends related to the shares held for the Share Award Schemes, amounted to RMB1,761 million (final dividend for 2012: RMB1,468 million), was paid/payable as at 30 September 2014.

The Board did not declare any interim dividend for the nine months ended 30 September 2014 and 2013.

15 Subsequent event

Merger of Kakao Corporation with Daum

In May 2014, Kakao Corporation, an associate of the Group, entered into a merger agreement to merge with Daum, where Daum is the surviving corporation. Daum is listed on the Korea Securities Dealers Automated Quotation (KOSDAQ) market of the Korea Exchange and runs a portal website in Korea named www.daum.net. The merger transaction was completed in October 2014. As a result, the Group's interest in the merged entity is diluted and the management is in the process of assessing the financial impact.

OTHER INFORMATION

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30 September 2014.

Employee and Remuneration Policies

As at 30 September 2014, the Group had 26,284 employees (30 September 2013: 26,962). 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 three months ended 30 September 2014 was RMB4,215 million (for the three months ended 30 September 2013: RMB2,714 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 nine months ended 30 September 2014.

Compliance with the Corporate Governance Code

Save as disclosed in the 2013 annual report and the 2014 interim 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 July 2014 to 30 September 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, 12 November 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 (Koos) 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
“ACGs”	advanced casual games
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange
“China Mobile”	China Mobile Communications Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Network Communications Group Company Limited
“CIT”	corporate income tax
“CJ Games”	CJ Games Corporation (currently known as Netmarble 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

“Daum”	Daum Kakao Corporation (formerly known as Daum Communications Corporation), a company incorporated under the laws of Korea and the shares of which are listed on the Korea Securities Dealers Automated Quotation (KOSDAQ) market of the Korea Exchange
“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
“IFRIC”	International Financial Reporting Standards Interpretations Committee
“IFRS”	International Financial Reporting Standards
“IPO”	initial public offering
“JD.com”	JD.com, Inc., a limited liability company incorporated in the Cayman Islands whose American depository shares are listed on NASDAQ
“Korea”	the Republic of Korea
“KRW”	Korean Won, the lawful currency of Korea
“Leju”	Leju Holdings Limited, a limited liability company incorporated in the Cayman Islands whose American depository shares are listed on the New York Stock Exchange
“LIBOR”	London InterBank Offered Rate

“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
“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”	personal computer
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Fund”	a charity fund established by the Group
“United States” or “US”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services
“Voice of China 3”	the third season of The Voice of China (中國好聲音), a Chinese reality talent show
“Yixun”	Shanghai Icton 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