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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)

ESTABLISHMENT OF US$5,000,000,000 GLOBAL MEDIUM TERM NOTE PROGRAMME

AND

EXTRACT OF FINANCIAL INFORMATION

The Board is pleased to announce that on 10 April 2014 the Company has established the Programme under which it may issue Notes in series of aggregate principal amount of up to US$5,000,000,000 (or its equivalent in other currencies) to professional investors only as described in the offering circular relating to the Programme. The 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. There will be no public offering of the Notes issued under the Programme in Hong Kong, the United States or any other jurisdictions, or to be placed to any connected person of the Company.

In connection with the Programme, the Company will provide certain professional investors with recent corporate and financial information. For purposes of transparent and timely dissemination of information to Shareholders and the broader investment community, an extract of the relevant information which relates to the management's discussion and analysis of financial condition and results of operations of the Group is attached hereto.

The Company has appointed Deutsche Bank as arranger under the Programme by way of a dealer agreement dated 10 April 2014.

As the Company may or may not proceed with drawdown(s) under the Programme, the timing of drawdown(s) (if any) is uncertain as it depends on market conditions and the corporate needs of the Company and, the terms of each drawdown may vary within the parameters set out in the Programme, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Company.

ESTABLISHMENT OF US$5,000,000,000 GLOBAL MEDIUM TERM NOTE PROGRAMME BY THE COMPANY

Introduction

The Board is pleased to announce that on 10 April 2014, the Company has established the Programme under which it may issue Notes in series of aggregate principle amount of up to US$5,000,000,000 (or its equivalent in other currencies) to "qualified institutional buyers" as defined in Rule 144A and to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. The 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. There will be no public offering of the Notes issued under the Programme in Hong Kong, the United States or any other jurisdictions.

The Company has appointed Deutsche Bank as arranger under the Programme by way of a dealer agreement dated 10 April 2014.

Listing

An application has been made by the Company for the listing of the Programme by way of debt issues to professional investors on the Stock Exchange. In relation to any issue of the Notes, the Company has the option to agree with the relevant dealer(s) as to whether the Notes will be listed on any stock exchange(s) and, if so, to list the Notes on the Stock Exchange or any other stock exchange.

Proposed use of net proceeds

If the Notes are issued, the Company intends to use the net proceeds from the issue of each series of Notes for general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

Benefits of setting up the Programme

The Company considers that the Programme is to make available a platform to enhance its flexibility and efficiency for future funding or capital management from a medium to long-term perspective. It is designed to allow Notes to be drawndown from time to time and the Company has no current intention to drawdown the entire amount of the Programme. The principal amount and timing of drawdown(s) of Notes under the Programme are dependent on several factors, including but not limited to, market conditions and corporate needs of the Company.

GENERAL

As the Company may or may not proceed with drawdown(s) under the Programme, the timing of drawdown(s) (if any) is uncertain as it depends on market conditions and the corporate needs of the Company and, the terms of each drawdown may vary within the parameters set out in the Programme, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

Term	**Definition**
"Board"	the board of directors of the Company
"Company"	Tencent Holdings Limited, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Group"	the Company and its subsidiaries from time to time
"Notes"	medium term notes that may be issued from time to time by the Company to professional investors only under the Programme

"Pricing Supplement"	the document which sets out the terms specific to each series of the Notes to be issued under the Programme
"Programme"	the US$5,000,000,000 global medium term note programme established by the Company by way of a dealer agreement dated 10 April 2014
"Regulation S"	Regulation S under the U.S. Securities Act of 1933, as amended
"Rule 144A"	Rule 144A under the U.S. Securities Act of 1933, as amended
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States"	the United States of America
"US$"	United States dollars, the lawful currency of the United States

By order of the Board
Ma Huateng
Chairman

10 April 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations as of and for the years ended 31 December 2011, 2012 and 2013 and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Circular, including "Risk Factors".

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country with 808.0 million MAU of QQ and 355.0 million combined MAU of Weixin and WeChat as of 31 December 2013. We are the leading IM provider in the PRC with QQ having a market share of 83.7% for PC IM services, while Mobile QQ and Weixin have a market share of 41.6% and 54.5% for Mobile IM services respectively, as measured by monthly time spent by users as of December 2013, according to iResearch. We also provide diversified social networking and social media services including Qzone and Tencent Microblog. We are the largest SNS provider with our Qzone and Tencent Microblog together having a market share of 72.7% in the PRC as measured by monthly time spent by users in December 2013, according to iResearch. QQ.com had 133.9 million daily average unique visitors in December 2013, which ranked first among all online portals in the PRC, according to iResearch, and No. 7 website in the world in user traffic as of March 2014 according to Alexa.com. Leveraging our social communications platform and our massive user base, we aim to become the hub for fulfilling Internet users' online lifestyle needs, encompassing communication, social networks, entertainment, media content and eCommerce. The breadth of our highly popular services cover: QQ IM, Qzone, QQ Game Platform, QQ.com, Tencent Video, eCommerce services, mobile news and our mobile social communication platforms, Weixin and WeChat. We were founded in November 1998 and we launched our QQ IM service in February 1999. Currently, we have four lines of business:

- ***Value-added Services*** — Our VAS business mainly consists of online games and social networks. We offer a diversified game portfolio ranging from PC client games like MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including QQ Membership, Qzone and Tencent Microblog, etc. We monetise our VAS business primarily via monthly subscriptions and item-based sales within PC and mobile games or other applications.

- ***Online Advertising*** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are delivered primarily on our SNS platforms and other platforms.

- ***eCommerce Transactions*** — Our eCommerce transactions business involve B2C eCommence transactions, sales of merchandise and services on our B2C marketplaces, C2C marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce.

- ***Others*** — Our other services include trademark licensing, software development services and software sales.

We aim to build an Internet ecosystem that provides benefits to users, content providers, applications developers, our own platforms and the Internet industry as a whole. We believe our users are attracted to our large and active online communities as well as our diverse offering of innovative services and applications. We will continue to leverage our massive user base, our comprehensive online platforms and well recognised brand to capitalise on the continued growth in Internet and mobile usage in the PRC.

We went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2013, our total revenues was RMB60,437 million (US$9,983 million) and our profit for the year was RMB15,563 million (US$2,571 million), an increase of 38% and 22%, respectively, over the year ended 31 December 2012. As of 31 December 2013, our cash and cash equivalents and term deposits amounted to RMB51,271 million (US$8,468 million).

Recent Developments

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 (the "**JD.com Pre-IPO Subscription**"), pursuant to which the Group purchased 351,678,637 ordinary shares of JD.com, representing 15% of the outstanding JD.com ordinary shares on a fully diluted pre-IPO basis immediately after the completion of the JD.com Pre-IPO Subscription for total consideration consisting of a net cash payment, certain eCommerce related businesses and assets of the Group and a 9.9% equity interest in Shanghai Icson with a call option granted to JD.com to acquire the remaining equity interests held by the Group in Shanghai Icson at the higher of RMB800 million and the then fair value of the interests on or before 10 March 2017, subject to compliance with all applicable laws. In addition, the Group entered into a strategic cooperation agreement with JD.com. The Group also entered into an IPO share subscription agreement to agree to subscribe for a further 5% of the outstanding JD.com ordinary shares on a fully diluted post-IPO basis immediately after the consummation of the JD.com's IPO. The Group accounted for the investment in JD.com as an investment in associate. The JD.com Pre-IPO subscription closed on 10 March 2014. See "*Business — Recent Developments*".

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the most significant factors that have affected or are expected to affect our results of operations and financial condition include, among others:

Ability to increase our user base and monetise our user traffic

The growth of our business and revenues depends on our ability to maintain and expand our highly engaged user community. As of 31 December 2013, MAU of QQ reached 808.0 million, an increase of 1.2% from 798.2 million as of 31 December 2012 and an increase of 12.1% from 721.0 million as of 31 December 2011. Combined MAU of Weixin and WeChat reached 355.0 million as of 31 December 2013, an increase of 120.8% from 160.8 million as of 31 December 2012.

We continuously seek to leverage the size of our user base and integrated nature of our platforms to build up user traffic for our new services and products, as well as drive revenue growth from VAS and online advertising. In addition, our large and logged-in user base and existing payment platform also makes our platforms more attractive to online advertisers and merchant partners.

We believe that the size of our user base also serves as the foundation for converting non-paying users into paying users. We have accumulated expertise in cross-marketing our services and products and have been able to migrate a large number of our users for QQ IM, Weixin, Qzone and other free services to fee-based services and products such as QQ Membership, PC and mobile games as well as item-based sales on our platforms. This in turn helps to support the growth of our VAS revenues.

For the years ended 31 December 2011, 2012 and 2013, our VAS revenues were RMB26,314 million, RMB35,718 million and RMB44,985 million (US$7,431 million), respectively. Cross-selling of our fee-based services and products to our existing VAS users is expected to continue to be a significant driver of our future revenue and profit growth.

Ability to maintain our market position and brand recognition

We have capitalised on our early-mover advantage and have established a strong market position and built a brand name widely recognised by PRC consumers and industry participants. Users may select our platforms, products and services because of our existing market position and brand reputation. For example, QQ is a widely recognised brand in the PRC and users seeking to join an IM platform will likely consider QQ IM as their primary choice because of the brand recognition and market leading position. Similarly, our Weixin platform has become the leading mobile communication and social service in the PRC. Our ability to compete effectively and to maintain our leading brand and market position is key to our ability to grow our user community, attract and expand relationships with our advertising customers and, in turn, grow our revenues.

Ability to develop, acquire and licence content and applications

In order to attract and maintain usage of our platforms, we need to develop, acquire and licence relevant content and applications for our users. Our ability to maintain existing licence arrangements, procure new licence arrangements and develop relevant content and applications will affect our users' engagement and usage of our platforms. We have devoted significant resources to the research and development of content and applications in order to keep our existing platforms relevant and attractive to users. Due to competition for third-party content and applications, content and application providers have been increasing their demands for upfront licence fees and/or royalty payments. As we seek to expand our business lines and diversify our portfolio of services and products, our ability to manage and control our third-party content and applications acquisition costs while maintaining the high quality and attractiveness of our content and applications will continue to affect our results of operations going forward.

Ability to maintain relationships with strategic partners

We derive value and benefits from our co-operative arrangements with a number of telecommunications operators, online game developers, content providers, application developers, device manufacturers, merchants, suppliers and advertising agencies. A portion of the fees for our VAS are collected through the networks of China Mobile, China Unicom and China Telecom through revenues-sharing arrangements that are periodically renewed. We have adopted an open platform strategy and many of our platforms, including Weixin, Qzone, Tencent Microblog, and QQ Game Platform, support third-party applications. We also have arrangements with third-party content providers and advertising agencies. The fees and costs paid for content and advertising agency fees to third parties, plus Mobile and Telecom Charges (as defined below) and bandwidth and server custody fees, were RMB7,471 million, RMB9,996 million and RMB12,730 million (US$2,103 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Our ability to maintain existing and develop and foster new, strategic partnerships will be significant factors to enable us to meet the increasingly complex demands of our users and customers, expand our distribution channels and diversify our revenue streams.

Ability to continue offering services and products that are attractive to users and ability to manage cash flow, including working capital and capital expenditures

Our financial condition and results of operations depend on the attractiveness and demand for our service and product offerings. The rapid evolution of available technologies and infrastructure in the Internet and telecommunications industries, such as the expansion of the LTE platform, may allow us to deliver more innovative product and service offerings to our users.

In particular, online games represent one of the key growth drivers for our VAS business. We must continue to diversify our game portfolio and broaden our user base through the introduction of new expansion packs and new play-modes that can increase the lifespans of our popular game titles, such as Blade and Soul, Cross Fire, QQ Dancer, Dungeon and Fighter, Legend of YuLong, QQ Speed and League of Legends. We also strive to leverage our platforms to accelerate the growth of mobile games, while reinforcing our leadership in PC client games. We must also identify and offer new game genres that can capture the growth potential of the industry in order to achieve sustainable growth of our online game business.

PRC regulations affecting the Internet and telecommunications industries

As a majority of our operations are located in the PRC, our results of operations, financial condition and prospects are subject to regulatory developments in the PRC. The Internet, telecommunications and other related industries of the PRC are highly regulated. Regulations issued or implemented by the State Council, MIIT, MOC, SAPPRFT and other relevant government authorities cover many aspects of our telecommunications, Internet information and other related services, including entry into the telecommunications industry, the scope of permissible business activities, licences and permits for various business activities and foreign investment. See "*General Regulation on Internet and Telecommunication Industries*" for further description. For example, because a significant portion of our revenues from online games and other products and services rely on large Internet user communities, any regulations that affect Internet access and usage, such as those relating to online game addiction, operations of Internet cafes and other establishments, Internet privacy, imported games, mobile subscriber cancellation policies and other regulations, will affect the ways we operate and provide our services and products.

In addition, because certain of our PRC subsidiaries and consolidated controlled entities qualified as "High and New Technology Enterprises" received preferential tax treatment or exemptions as of 31 December 2013, any adverse changes in the status of such preferential tax treatment or exemptions would increase the costs of our business.

Macroeconomic conditions in the markets where we operate

Our results of operations and financial condition are affected by economic conditions in the PRC and, to a lesser extent, the economic conditions of the rest of the world. The PRC has experienced rapid economic growth over the past three decades. The growth of the PRC economy has led to significant increases in personal wealth and per capita annual disposable income which, in turn, has increased demand for VAS and products that we provide in our various business segments.

The continuing maturation of the PRC economy has been attended by a gradual slowdown in economic growth. The World Bank forecasts that the PRC economy will grow 7.7% in 2014. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about potential overinvestment and overleveraging in the PRC economy, the Eurozone sovereign debt crisis, and concerns about a renewed global recession similar to the economic crisis in 2008, may impact the growth of the PRC economy and PRC-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, it is unclear how PRC economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

Recruitment, compensation and retention of employees

The performance of our employees has a significant effect on our business. For example, our senior management team uses its experience and understanding of the PRC Internet and telecommunications industries, local user preferences and key industry players to formulate future growth strategies and respond to industry changes. Skilled research and development personnel are also critical to our development of new services and products (such as new online games) and leverage upon new technologies and infrastructures. As our business continues to grow, we continue to expand our workforce. The number of our full-time employees was 17,446, 24,160 and 27,492 as of 31 December 2011, 2012 and 2013, respectively. Consequently, as our workforce expands we incur additional staff costs as costs of revenues to our business. Our total remuneration costs (including capitalised remuneration cost) were RMB4,879 million, RMB7,724 million and RMB10,364 million (US$1,712 million) for the years ended 31 December 2011, 2012 and 2013, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programs such as training, bonus and share options programs, which would further affect our staff costs.

BASIS OF PRESENTATION

During the periods presented in the consolidated financial statements, we derived substantially all of our revenues under a series of contractual arrangements between our WFOEs and our consolidated affiliated entities. These contractual arrangements are designed to provide us and the WFOEs with effective control over, and (to the extent permitted by PRC law) the right to acquire the equity interests in and assets of our consolidated affiliated entities. Based on such contractual arrangements, we have concluded that it is appropriate to consolidate the financial statements of our consolidated affiliated entities, notwithstanding the lack of direct share ownership, because, in substance, the contractual arrangements transfer the economic risks and benefits of these consolidated affiliated entities to us. Our consolidated affiliated entities include, among others, Tencent Computer, Shiji Kaixuan, Beijing Emark Information Technology Company Limited, Nanjing Wang Dian Technology Company Limited, Beijing BIZCOM Technology Company Limited, Beijing Starsinhand Technology Company Limited, Shenzhen Shijitianyou Technology Company Limited and Guangzhou Yunxun Technology Company Limited. See "*Risk Factors—Risks Related to our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating our services in the PRC do not comply with PRC governmental restrictions on foreign investment in value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations*" and "*Risk Factors—Risks Related to our Corporate Structure—The contractual arrangements with the consolidated affiliated entities and their shareholders, which relate to critical aspects of our operations may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law*".

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We generate our revenues primarily from four lines of business:

- VAS;
- online advertising;
- eCommerce transactions; and
- others.

Our revenues was RMB28,496 million, RMB43,894 million and RMB60,437 million (US$9,983 million) for the years ended 31 December 2011, 2012 and 2013, respectively. The following table sets forth our revenues by line of business for the periods indicated:

	Year ended 31 December						
	2011		2012		2013		
	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	(US$ in millions)	% of Total Revenues
Revenues:							
VAS[1]	26,314	92	35,718	81	44,985	7,431	75
Online advertising	1,992	7	3,382	8	5,034	832	8
eCommerce transactions[2]	—	—	4,428	10	9,796	1,618	16
Others	190	1	366	1	622	102	1
Total revenues	28,496	100	43,894	100	60,437	9,983	100

Notes:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.

(2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues was generated from eCommerce transactions in periods prior to 1 January 2012.

VAS

Revenues from VAS is primarily derived from the provision of online games and social networks services such as community VAS and item-based sales on our platforms, and accounts for the majority of our total revenues. Our VAS is primarily provided on a subscription basis or on a per-item basis. We derive a substantial portion of online games revenues from the item-based sales and subscription services offered by QQ Game Platform, ACGs such as Cross Fire, QQ Dancer, League of Legends and QQ Speed, MMOGs such as Dungeon and Fighter, Legend of Yulong and Blade and Soul, and mobile games. We also derive revenues from item-based sales and subscriptions from our community value-added services such as Qzone, QQ Membership and QQ Show. In addition, we generate item-based sales revenues within the in-house and third-party applications offered through our platforms including Qzone, Mobile QQ, Weixin and QQ Game Platform.

Revenues from VAS was RMB26,314 million, RMB35,718 million and RMB44,985 million (US$7,431 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Our online game business achieved healthy growth in revenues, thanks to the strong performance of our major PC game titles in China and League of Legends in international markets, and the launch of new PC game titles. Our social networks revenues grew due to the increase in item-based sales within applications on our platforms.

For a detailed discussion of how revenues from VAS is recognised in our consolidated financial statements, see "*—Critical Accounting Policies, Estimates and Judgments—Revenue Recognition—VAS*".

Online advertising

Online advertising revenues are primarily derived from fees for selling brand display advertising inventory on our online video, IM clients, portals and other platforms, and performance display advertising inventory on our SNS platforms and other platforms. For brand display advertising, the majority of our fees are determined based on the length of time or the number of impressions of the advertisement and the location of the advertisement. For performance display advertising, our fees are mainly determined based on the number of clicks generated from the advertisement.

Revenues from online advertising was RMB1,992 million, RMB3,382 million and RMB5,034 million (US$832 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Our online advertising business benefited from the significant growth in performance-based social advertising and online video advertising, as well as solid growth in traditional brand advertising.

For a detailed discussion of how revenues from online advertising is recognised in our consolidated financial statements, see "*—Critical Accounting Policies, Estimates and Judgments—Revenue Recognition—Online Advertising*".

eCommerce transactions

Revenues from eCommerce transactions primarily consists of revenues generated from merchandise sales on our eCommerce platforms, which are comprised of transactions where we sell our own inventories as a principal and transactions where we act as an agent. For those eCommerce transactions in which we act as a principal, we report GMV after deducting discounts, return allowances and relevant taxes as revenues. For those eCommerce transactions in which we act as an agent, we report our commission and fixed fees (after deducting relevant taxes) as revenues.

Revenues for eCommerce transactions was insignificant in 2011, and RMB4,428 million and RMB9,796 million (US$1,618 million) for the years ended 31 December 2012 and 2013, respectively. We achieved significant growth in principal eCommerce transactions revenues under a highly competitive market environment as we expanded our product category and geographic coverage. Fees generated from transactions on our marketplaces also increased.

For a detailed discussion of how revenues from eCommerce transactions is recognised in our consolidated financial statements, see "*—Critical Accounting Policies, Estimates and Judgments—Revenue Recognition—eCommerce Transactions*".

Others

Revenues from others is primarily from the provision of trademark licensing, software development services and software sales. Revenues from others was RMB190 million, RMB366 million and RMB622 million (US$102 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

Cost of revenues

Our cost of revenues was RMB9,928 million, RMB18,207 million and RMB27,778 million (US$4,588 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

Cost of revenues consist of the direct costs for operating and offering our services and products, which consist primarily of the cost of merchandise sold for eCommerce transactions where we acted as a principal, sharing and content costs (mainly including content costs and agency fees), telecommunications operators' portion of revenues for the value-added services provided over their network platforms, bandwidth and server custody fees, depreciation of our equipment and other direct costs. Staff costs that directly relate to the provision of our services and products are also included in cost of revenues.

Sharing and content costs primarily consist of the content costs paid to game developers and content providers. From time to time, we engage third parties to develop content and we also licence and purchase content from third parties. This content is used across our services and products, including content for our online and mobile games, and allows us to expand the range of services we provide to our users.

Agency fees primarily consist of the sales commission paid to the advertising agencies and other intermediaries. We engage advertising agencies and other intermediaries to sell advertising inventory in forms such as banners and links. The commissions paid to advertising agencies and other sales intermediaries are recognised as cost of revenues.

Telecommunications operators' portion of revenues for the value-added services provided over their network platforms includes the commission based on certain percentages of the service fees collected by them and imbalance fees. Imbalance fees are payable by us for the excess of the number of messages sent from our Internet platforms to mobile phones over the number of messages sent from mobile phones to our Internet platforms.

We lease bandwidth from Internet data centers operated by network operators in the PRC. In addition, we have network servers located in Internet data centers operated by network operators in the PRC. We pay custody fees to such operators which are recognised in full as incurred.

Interest income

Interest income primarily consists of interest income from bank deposits including current deposits and term deposits.

Other gains/(losses), net

Other gains/(losses), net primarily consist of the gains on disposal/deemed disposal of investees, subsidies and tax rebates, dividend income, losses from donation to the Tencent Charity Funds, derivative financial instruments and impairment provision for investees.

Selling and marketing expenses

Selling and marketing expenses primarily consist of costs incurred with our promotional and advertising activities, such as purchasing third-party advertising, holding promotion events and related staff costs. In recent years, our selling and marketing expenses have increased as we continue to launch and promote new services and seek to enhance our brand recognition.

General and administrative expenses

General and administrative expenses primarily consist of research and development expenses, related staff costs, office rental, travel and entertainment expenses, consulting fees, office maintenance and other general office expenses.

Finance income/(costs), net

Finance income/(costs), net include interest expenses primarily arising from our borrowings, long-term notes payable and our foreign currency exchange gains or losses.

Income tax expense

We were not subject to any income tax in the Cayman Islands or the BVI in 2011, 2012 and 2013. We did not make any United States corporate income tax provision or Hong Kong profits tax provision in 2011. For the years ended 31 December 2012 and 2013, U.S. corporate income tax provision were made for entities within our Group that are incorporated in the United States on the estimated assessable profits at the rate of 36% and Hong Kong profits tax provision was provided on the estimated assessable profits at the rate of 16.5%.

Our revenues are primarily derived from our entities incorporated in the PRC. Our entities incorporated in the PRC are subject to income tax in the PRC. Our income tax expense was RMB1,874 million, RMB2,266 million and RMB3,718 million (US$614 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

According to the 2008 CIT Law, effective on 1 January 2008, there is a 25% corporate income tax for domestic and foreign-invested enterprises on their worldwide income. However, the State Council provided certain transitional phase-out rules, which provided for a transition period to enterprises that had preferential tax treatment prior to the promulgation of the 2008 CIT Law. In particular, enterprises that were incorporated prior to 16 March 2007 and entitled to the exemptions or reduced income tax rates for fixed terms under the old foreign invested enterprise tax law would continue to enjoy such treatment until the expiry of such fixed terms provided that, for the enterprises whose preferential tax treatments have not commenced due to lack of taxable profit, the fixed preferential terms shall commence from the year of 2008. Under the 2008 CIT Law and its implementation rules, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in 2011 and 2012 were further reduced to 10%.

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Group 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 operations or from the first year of profitable operation after offsetting tax losses generated from prior years.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived on or after 1 January 2008 are subject to a withholding tax rate of 10%. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the Tax Arrangement, the relevant withholding tax rate could be reduced to 5% from 10%. 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.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial information. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involved the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. We believe the following represents our critical accounting policies, judgments and estimates.

Revenue Recognition

We principally derive revenues from the provision of VAS, online advertising services and eCommerce transactions in the PRC.

VAS

Revenues from VAS is derived principally from the provision of online games, community VAS and item-based sales within applications on our PC and mobile platforms.

VAS are primarily billed on a monthly subscription basis or on a per-item basis. Certain of these services are delivered to our customers through the platforms of various branches, subsidiaries and affiliates of telecommunications operators in the PRC and the operators also collect certain service fees (the "**Internet and Mobile Service Fees**") on our behalf.

In collecting the Internet and Mobile Service Fees on our behalf, these telecommunications operators are entitled to a fixed commission, which is calculated based on agreed percentages of the Internet and Mobile Service Fees received/receivable by them, plus, in certain cases, applicable imbalance fees (collectively defined as the "**Mobile and Telecom Charges**"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to us.

We recognise the Internet and Mobile Service Fees as revenues on a gross basis and treat the Mobile and Telecom Charges as cost of revenues.

VAS are primarily purchased by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by us through non-mobile channels such as sales agents appointed by us, telecommunications operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in our platforms and then access our online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "Deferred revenues" in the statement of financial position. The amounts are then recognised as revenues based on the actual utilisation of the payment unit. When the payment unit is used to purchase services, the revenues are recognised when the related services are rendered, and when the payment unit is used to purchase virtual products/items in our Internet platforms, the revenues are recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship, whichever is the longer.

In relation to the sharing income derived from third-party games or applications which are available on our platforms and hosted by the developers, we recognise the related revenues on a related net basis because we act as an agent in such arrangements. We defer the related revenues over an estimated period as there is an implicit obligation for us to maintain and allow the users' access to the games or applications through our platforms.

Online advertising

Online advertising revenues are primarily derived from fees for selling brand display advertising inventory on our online video, IM clients, portals and other platforms, as well as performance display advertising inventory on our SNS platforms and other platforms. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For brand display advertising contracts based on the actual time period that the advertisements are displayed on our websites, IM clients or other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed. In addition, revenues from some other brand display advertising contracts are recognised based on the number of impressions of the advertisements. For performance display advertising, the pricing of the advertising inventory is determined through a bidding system and the revenues are recognised based on the number of clicks generated from the advertisement.

eCommerce transactions

Revenues from our eCommerce transactions are derived from sales of merchandise and provision of services through our eCommerce platforms. We recognise revenues from merchandise sales and related costs on a gross basis when we act as a principal. When we are not a principal and are instead acting as an agent, revenues are recognised on a net basis based on a pre-determined percentage. Whether we act as a principal or an agent in a transaction is determined based on several criteria, including whether we are a primary obligor, whether we are subject to inventory risk, whether we have latitude in establishing price and selecting suppliers, or whether we have several but not all of these indicators in a transaction.

For merchandise sold under eCommerce transactions, the customers place their orders online with a commitment made at a fixed selling price. Payment for the purchased merchandise is made either before delivery or upon delivery. When we are acting as a principal, revenues (net of discounts and return allowances and relevant taxes) are recognised when the merchandise is physically delivered to the respective customers. Return allowances, which reduce the gross amount of merchandise revenues, are estimated based on our historical experience.

Research and Development Expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development expenditures previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development expenditures are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives, not exceeding five years.

Share-based Compensation Expenses

We have adopted several share option schemes and share award schemes as part of our compensation benefits to employees. The fair value of the employee services received in exchange for the grant of options and awarded shares is recognised as an expense and credited to share premium. For grants of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted by using an option-pricing model, the Black-Scholes valuation model, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. As we use the Black-Scholes valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period, significant judgment on parameters, such as risk-free rate, dividend yield and expected volatility, is required to be made by the Directors in applying the Black-Scholes valuation model. The fair value of options granted determined using the Black-Scholes valuation model was approximately HK$63 million and HK$15 million for the years ended 31 December 2011 and 2012, respectively. There was no option granted to employees in 2013.

For grant of award shares, the total amount to be expensed over the vesting period is determined by reference to the market price of our shares at the grant date.

For both share options and awarded shares, we must estimate the expected yearly percentage of grantees of share options and awarded shares who will stay within the Group at the end of the vesting periods to determine the amount of share-based compensation expenses charged into the income statement.

Income Taxes

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes as there are many transactions and calculations for which the determination of ultimate tax liabilities is uncertain. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due and whether the final tax outcome of these matters is different from the amounts that were initially recorded. Such differences, if any, will impact current income tax and deferred income tax liabilities in the period in which such determination is made.

RESULTS OF OPERATIONS

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenues. Revenues increased by RMB16,543 million, or 38%, from RMB43,894 million in 2012 to RMB60,437 million (US$9,983 million) in 2013.

The following table sets forth our revenues by lines of business for the years ended 31 December 2012 and 2013:

	Years ended 31 December				
	2012		2013		
	Amount	% of total revenues	Amount		% of total revenues
	(RMB in millions)		(RMB in millions)	(US$ in millions)	
VAS[1]	35,718	81	44,985	7,431	75
Online advertising	3,382	8	5,034	832	8
eCommerce transactions	4,428	10	9,796	1,618	16
Others	366	1	622	102	1
Total revenues	43,894	100	60,437	9,983	100

Note:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the year ended 31 December 2012 were restated to conform to the new segment information presentation format.

Revenues from VAS increased by RMB9,267 million, or 26%, from RMB35,718 million in 2012 to RMB44,985 million (US$7,431 million) in 2013. Online games revenues grew by RMB8,149 million, or 34%, from RMB23,817 million in 2012 to RMB31,966 million (US$5,280 million) in 2013. The increase primarily reflected growth in our major PC game titles in China and League of Legends in international markets as well as contributions from the launch of new PC game titles. Revenues from our social networks increased by RMB1,118 million, or 9% from RMB11,901 million in 2012 to RMB13,019 million (US$2,151 million) in 2013.This was primarily driven by growth in item-based sales within applications on our open platforms, partly offset by a decline in subscription revenues. Revenues from our online games and social networks also benefited from initial contributions from smart phone games integrated with Mobile QQ and Weixin. As a percentage of total revenues, revenues from VAS decreased from 81% in 2012 to 75% in 2013.

Revenues from online advertising increased by RMB1,652 million, or 49%, from RMB3,382 million in 2012 to RMB5,034 million (US$832 million) in 2013. This mainly reflected significant growth in revenues from performance-based social advertising and online video advertising. Revenues from traditional brand advertising also increased, though at a more moderate rate. Revenues from search advertising declined as we transferred our search business to Sogou in September 2013. As a percentage of total revenues, revenues from online advertising remained at 8% in 2013 as compared to 2012.

Revenues from eCommerce transactions increased by RMB5,368 million, or 121%, from RMB4,428 million in 2012 to RMB9,796 million (US$1,618 million) in 2013. This was primarily driven by a significant increase in principal eCommerce transactions volume. Fees generated from transactions on our marketplaces also increased. As a percentage of total revenues, revenues from eCommerce transactions increased from 10% in 2012 to 16% in 2013.

Revenues from others increased by RMB256 million, or 70%, from RMB366 million in 2012 to RMB622 million (US$102 million) in 2013.

Cost of revenues. Cost of revenues increased by RMB9,571 million, or 53%, from RMB18,207 million in 2012 to RMB27,778 million (US$4,588 million) in 2013. This mainly reflected increases in cost of merchandise sold, as well as sharing and content costs. As a percentage of revenues, cost of revenues increased to 46% for the year ended 31 December 2013 from 41% for the year ended 31 December 2012, mainly due to a revenue mix shift towards the eCommerce transactions business.

The following table sets forth our cost of revenues by lines of business for the years ended 31 December 2012 and 2013:

	Years ended 31 December				
	2012		**2013**		
	Amount	**% of segment revenues**	**Amount**		**% of segment revenues**
	(RMB in millions)		(RMB in millions)	(US$ in millions)	
VAS[(1)]	12,064	34	15,384	2,541	34
Online advertising	1,733	51	2,777	459	55
eCommerce transactions	4,192	95	9,239	1,526	94
Others	218	60	378	62	61
Total cost of revenues	18,207		27,778	4,588	

Note:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the year ended 31 December 2012 were restated to conform to the new segment information presentation format.

Cost of revenues for VAS increased by RMB3,320 million, or 28%, from RMB12,064 million in 2012 to RMB15,384 million (US$2,541 million) in 2013. This mainly reflected an increase in sharing and content costs due to the growth in our business. Bandwidth and server custody fees as well as staff costs also increased. As a percentage of revenues generated from the same segment, cost of revenues remained at 34% in 2013 as compared to 2012.

Cost of revenues for online advertising increased by RMB1,044 million, or 60%, from RMB1,733 million in 2012 to RMB2,777 million (US$459 million) in 2013. The increase partly arose from a periodic review of user video viewing patterns, prompting our decision to accelerate the amortisation of video content costs commencing in the fourth quarter of 2013, which resulted in a true up for the shortfall in such amortisation for previous years. This also reflected higher bandwidth and server custody fees as well as commissions payable to advertising agencies. Excluding the impact of the acceleration of video content costs amortisation and the related true up, which amounted to RMB317 million on aggregate, cost of revenues for our online advertising business would have increased by 42%. As a percentage of revenues generated from the same segment, cost of revenues increased from 51% in 2012 to 55% in 2013, primarily due to the impact of the acceleration of video content costs amortisation and the related true up.

Cost of revenues for eCommerce transactions increased by RMB5,047 million, or 120%, from RMB4,192 million in 2012 to RMB9,239 million (US$1,526 million) in 2013. This mainly reflected an increase in cost of merchandise sold due to growth in our principal eCommerce transactions volume. As a percentage of revenues generated from the same segment, cost of revenues decreased from 95% in 2012 to 94% in 2013.

Cost of revenues for others increased by RMB160 million, or 73%, from RMB218 million in 2012 to RMB378 million (US$62 million) in 2013.

Gross profit. Gross profit increased by RMB6,972 million, or 27%, from RMB25,687 million in 2012 to RMB32,659 million (US$5,395 million) in 2013. Our gross margin was 54% in 2013 as compared to 59% in 2012.

Interest income. Interest income increased by RMB478 million, or 57%, from RMB836 million in 2012 to RMB1,314 million (US$217 million) in 2013.

Other gains/(losses), net. We recorded other gains, net of RMB904 million (US$150 million) in 2013, compared to other losses, net of RMB284 million in 2012. The change primarily reflected a decrease in impairment provision for selected investees, as well as increases in disposal gains related to certain investees and subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by RMB2,701 million, or 90%, from RMB2,994 million in 2012 to RMB5,695 million (US$941 million) in 2013. This mainly reflected a step up in marketing activities related to WeChat in international markets and an increase in advertising spending on online games, mobile utilities and eCommerce platforms. Staff costs also increased as our business expanded. As a percentage of total revenues, selling and marketing expenses increased from 7% in 2012 to 9% in 2013.

General and administrative expenses. General and administrative expenses increased by RMB2,222 million, or 29%, from RMB7,766 million in 2012 to RMB9,988 million (US$1,650 million) in 2013. This primarily reflected increases in research and development expenses, staff costs (including share-based compensation) as well as other administrative expenses, such as office-related costs. As a percentage of total revenues, general and administrative expenses decreased from 18% in 2012 to 17% in 2013.

Operating profit. Operating profit increased by RMB3,715 million, or 24%, from RMB15,479 million in 2012 to RMB19,194 million (US$3,171 million) in 2013.

Finance costs, net. We recorded finance costs, net of RMB84 million (US$14 million) in 2013 compared to finance costs, net of RMB348 million in 2012. This mainly reflected the recognition of foreign exchange gains on our foreign currency denominated debts due to exchange rate movements in the year ended 31 December 2013, compared to foreign exchange losses in 2012.

Profit before income tax. Profit before income tax increased by RMB4,230 million, or 28%, from RMB15,051 million in 2012 to RMB19,281 million (US$3,185 million) in 2013.

Income tax expense. Income tax expense increased by RMB1,452 million, or 64%, from RMB2,266 million in 2012 to RMB3,718 million (US$614 million) in 2013. This primarily reflected higher profit before income tax and the absence of a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate for 2011 and 2012. The increase was partly offset by a decrease in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB2,778 million, or 22%, from RMB12,785 million in 2012 to RMB15,563 million (US$2,571 million) in 2013. Our profit margin decreased from 29% in 2012 to 26% in 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenues. Revenues increased by RMB15,398 million, or 54%, from RMB28,496 million in 2011 to RMB43,894 million in 2012.

The following table sets forth our revenues by lines of business for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2011		2012	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS[1]	26,314	92	35,718	81
Online advertising	1,992	7	3,382	8
eCommerce transactions[2]	—	—	4,428	10
Others	190	1	366	1
Total revenues	28,496	100	43,894	100

Notes:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.

(2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues were generated from eCommerce transactions in periods prior to 1 January 2012.

Revenues from VAS increased by RMB9,404 million, or 36%, from RMB26,314 million in 2011 to RMB 35,718 million in 2012. Online games revenues grew by RMB7,275 million, or 44% from RMB16,542 million in 2011 to RMB23,817 million in 2012. This was primarily driven by growth in our major titles, and contributions from new titles launched in 2012, and increased contributions from international markets. Revenues from our social networks increased by RMB2,129 million, or 22% from RMB9,772 million in 2011 to RMB11,901 million in 2012, mainly attributable to growth in our open platforms. Revenues from our open platforms grew primarily due to a significant increase in usage of third-party applications, and consequently sales of virtual items within such applications. As a percentage of total revenues, revenues from VAS decreased from 92% in 2011 to 81% in 2012.

Revenues from online advertising increased by RMB1,390 million, or 70%, from RMB1,992 million in 2011 to RMB3,382 million in 2012. This mainly reflected new revenue contribution from performance-based social advertising and growth in video advertising. Traditional brand display advertising and search advertising also contributed to our business growth. As a percentage of total revenues, revenues from online advertising increased from 7% in 2011 to 8% in 2012.

Revenues from eCommerce transactions was RMB4,428 million for the year ended 31 December 2012. As a percentage of total revenues, revenues from eCommerce transactions accounted for 10% for the year ended 31 December 2012.

Revenues from others increased by RMB176 million, or 93%, from RMB190 million in 2011 to RMB366 million in 2012.

Cost of revenues. Cost of revenues increased by RMB8,279 million, or 83%, from RMB9,928 million in 2011 to RMB18,207 million in 2012. This mainly reflected the recognition of costs of merchandise sold relating to our eCommerce transactions business, as well as increases in sharing and content costs and staff costs. As a percentage of revenues, cost of revenues increased from 35% in 2011 to 41% in 2012.

The following table sets forth our cost of revenues by lines of business for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2011		2012	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS[1]	8,893	34	12,064	34
Online advertising	795	40	1,733	51
eCommerce transactions[2]	—	—	4,192	95
Others	240	126	218	60
Total cost of revenues	9,928		18,207	

Notes:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.

(2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues were generated from eCommerce transactions in periods prior to 1 January 2012.

Cost of revenues for VAS increased by RMB3,171 million, or 36%, from RMB8,893 million in 2011 to RMB12,064 million in 2012. This was mainly driven by increased sharing and content costs for licenced game titles. Staff costs as well as bandwidth and server custody fees also increased as our business scale grew. As a percentage of revenues generated from the same segment, cost of revenues was 34% in 2012, broadly stable compared to 2011.

Cost of revenues for online advertising increased by RMB938 million, or 118%, from RMB795 million in 2011 to RMB1,733 million in 2012. This mainly reflected the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and server custody fees, to the online advertising segment since the fourth quarter of 2011. It also reflected increases in staff costs, sharing and content costs for our search advertising business and commissions payable to advertising agencies. As a percentage of revenues generated from the same segment, cost of revenues increased from 40% in 2011 to 51% in 2012.

Cost of revenues for eCommerce transactions was RMB4,192 million for the year ended 31 December 2012.

Cost of revenues for others in 2012 decreased by RMB22 million, or 9%, from RMB240 million in 2011 to RMB218 million in 2012.

Gross profit. Gross profit increased by RMB7,119 million, or 38%, from RMB18,568 million in 2011 to RMB25,687 million in 2012. Our gross margin was 59% in 2012 as compared to 65% in 2011.

Interest income. Interest income increased by RMB367 million, or 78%, from RMB469 million in 2011 to RMB836 million in 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB284 million in 2012, compared to other gains, net of RMB421 million in 2011. The change primarily reflected the absence in 2012 of deemed disposal gains of RMB708 million recognised in 2011 as a result of the acquisition of a majority interest in Riot Games Inc. by us from the existing shareholders, including the founders of Riot Games, Inc. ("the Riot Games Acquisition") and the acquisition of additional equity interest in Gamegoo Group Limited, which constituted a step-up business combination ("the Gamegoo Acquisition"), and an increase in impairment provision against selected investee companies in 2012. These factors were partially offset by the recognition of a special dividend income of RMB390 million from our investee company Mail.ru and an increase in subsidies and tax rebates in the year ended 31 December 2012.

Selling and marketing expenses. Selling and marketing expenses increased by RMB1,073 million, or 56%, from RMB1,921 million in 2011 to RMB2,994 million in 2012. This mainly reflected an increase in advertising and promotional activities on products and platforms such as online games and mobile applicatons, as well as spending related to the London Olympic Games. Staff cost also increased along with our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for 2012, broadly stable compared to 2011.

General and administrative expenses. General and administrative expenses increased by RMB2,483 million, or 47%, from RMB5,283 million in 2011 to RMB7,766 million in 2012. This was primarily driven by increases in research and development expenses, staff costs and administrative expenses, partially offset by a decrease in intangible asset amortisation as certain intangible assets acquired through acquisition were fully amortised in the first quarter of 2012. As a percentage of total revenues, general and administrative expenses decreased from 19% in 2011 to 18% in 2012.

Operating profit. Operating profit increased by RMB3,225 million, or 26%, from RMB12,254 million in 2011 to RMB15,479 million in 2012.

Finance (costs)/income, net. We recorded finance costs, net of RMB348 million in 2012 compared to finance income, net of RMB36 million in 2011. The change was mainly driven by higher interest expense and the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in 2012.

Profit before income tax. Profit before income tax increased by RMB2,952 million, or 24%, from RMB12,099 million in 2011 to RMB15,051 million in 2012.

Income tax expense. We recorded income tax expense of RMB2,266 million in 2012 compared to RMB1,874 million in 2011. This primarily reflected: (i) higher profit before income tax; (ii) an increase in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies; and (iii) lower reversal of deferred tax liabilities arising from the Riot Games Acquisition. These factors were partially offset by a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB2,560 million, or 25%, from RMB10,225 million in 2011 to RMB12,785 million in 2012. Our profit margin was 29% in 2012 compared to 36% in 2011.

QUARTERLY RESULTS OF OPERATIONS

The following table presents our unaudited quarterly results of operations for the most recent eight quarters. You should read the table in conjunction with the consolidated financial information contained elsewhere in this Offering Circular. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary to fairly present results of operations for the quarters presented. Results of operations for any quarter are not necessarily indicative of results for any future quarters or full year.

	Three months ended							
	31 Mar. 2012	**30 June 2012**	**30 Sept. 2012**	**31 Dec. 2012**	**31 Mar. 2013**	**30 June 2013**	**30 Sept. 2013**	**31 Dec. 2013**
	(RMB in millions)							
Revenues:								
VAS[1]	8,295	8,716	9,317	9,390	10,666	10,752	11,635	11,932
Online advertising	540	880	1,015	947	850	1,297	1,390	1,497
eCommerce transactions	752	858	1,134	1,684	1,914	2,199	2,359	3,324
Others	61	74	99	132	118	136	151	217
Total revenues	**9,648**	**10,528**	**11,565**	**12,153**	**13,548**	**14,384**	**15,535**	**16,970**
Cost of revenues	(3,836)	(4,311)	(4,787)	(5,273)	(5,954)	(6,590)	(7,036)	(8,198)
Gross profit	**5,812**	**6,217**	**6,778**	**6,880**	**7,594**	**7,794**	**8,499**	**8,772**
Interest income	167	197	206	266	277	324	336	377
Other (losses)/gains, net	(64)	(3)	(15)	(202)	351	82	66	405
Selling and marketing expenses	(469)	(610)	(820)	(1,095)	(963)	(1,234)	(1,465)	(2,033)
General and administrative expenses	(1,755)	(1,862)	(2,025)	(2,124)	(2,196)	(2,401)	(2,621)	(2,770)
Operating profit	**3,691**	**3,939**	**4,124**	**3,725**	**5,063**	**4,565**	**4,815**	**4,751**
Finance (costs)/income, net	(71)	(115)	(99)	(63)	(82)	14	(22)	6
Share of (losses)/profit of associates	(9)	5	(21)	(29)	131	46	50	(14)
Share of profit/(losses) of joint ventures	1	(9)	(6)	(12)	(12)	(15)	(11)	(4)
Profit before income tax	**3,612**	**3,820**	**3,998**	**3,621**	**5,100**	**4,610**	**4,832**	**4,739**
Income tax expense	(651)	(708)	(756)	(151)	(1,029)	(926)	(955)	(808)
Profit for the period	**2,961**	**3,112**	**3,242**	**3,470**	**4,071**	**3,684**	**3,877**	**3,931**

Notes:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 January 2012 to 31 December 2013. The growth in our quarterly revenues was primarily attributable to increases in revenues from our VAS, driven by growth in our online games revenues due to the increased popularity of our existing games, the introduction of new games as well as growth in social networks business. In addition, our eCommerce transactions business experienced significant growth as we expanded our product category and geographic coverage. Our online advertising business was subject to seasonal fluctuation as advertisers usually reduce their advertising spending around the Chinese New Year holidays in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

On a consolidated basis, we currently fund our operations primarily with cash flows from operating activities. Our cash requirements relate primarily to:

- our working capital requirements, such as sharing and content costs, staff costs, bandwidth leasing and server custody fees, sales and marketing expenses and research and development expenses; and

- costs associated with the expansion of our business, such as the purchase of servers and network equipment.

We had cash and cash equivalents of RMB12,612 million, RMB13,383 million and RMB20,228 million (US$3,341 million) as of 31 December 2011, 2012 and 2013, respectively. Our term deposits included in current and non-current assets were RMB13,716 million, RMB24,698 million and RMB31,043 million (US$5,127 million) as of 31 December 2011, 2012 and 2013, respectively.

Our net current assets were RMB14,320 million, RMB15,844 million and RMB20,419 million (US$3,373 million) as of 31 December 2011, 2012 and 2013, respectively. Net current assets increased in 2013 as compared to 2012 primarily due to the higher levels of term deposits, prepayments, deposits and other assets, and cash and cash equivalents, partially offset by increases in other payables and accruals, borrowings and deferred revenues in the same period. Net current assets increased in 2012 as compared to 2011 primarily due to the higher levels of cash and cash equivalents and prepayments, deposits and other assets and a decrease in borrowings, which was partially offset by the decrease in restricted cash and the increase in deferred revenues, accounts payable and other payables and accruals.

We bill and collect revenues for our value-added services principally through these channels: prepaid Q-Coin cards, e-sales system, telecommunications operators and online banking. A majority of our revenues from value-added services are prepaid through Q-Coin cards, e-sales system and online banking, allowing us to minimise our credit risk.

Our accounts receivable were RMB2,021 million, RMB2,354 million and RMB2,955 million (US$488 million) as of 31 December 2011, 2012 and 2013, respectively. There are no contractual requirements for telecommunications operators to pay amounts owed to us within a specified period of time, these operators usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit of 90 days after full execution of the contracted advertisement order.

Our accounts payable were RMB2,244 million, RMB4,212 million and RMB6,680 million (US$1,103 million) as of 31 December 2011, 2012 and 2013, respectively. We normally settle the amount due to us according to the terms of our contracts.

Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US$ in millions)
Net cash flows generated from operating activities	13,358	19,429	24,374	4,026
Net cash flows used in investing activities	(15,355)	(16,270)	(19,134)	(3,160)
Net cash flows generated from/(used in) financing activities	4,373	(2,386)	1,708	282
Net increase in cash and cash equivalents	2,376	773	6,948	1,148
Cash and cash equivalents at beginning of year	10,408	12,612	13,383	2,211
Exchange losses on cash and cash equivalents	(172)	(2)	(103)	(18)
Cash and cash equivalents at end of year	12,612	13,383	20,228	3,341

Cash Flows from Operating Activities

In 2013, we had a cash inflow from operating activities in the amount of RMB24,374 million (US$4,026 million). This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB21,577 million and changes in working capital in the amount of RMB5,915 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB3,118 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB3,728 million, (ii) an increase in account payable of RMB2,036 million, (iii) an increase in other payables and accruals of RMB4,071 million and (iv) an increase in other tax liabilities of RMB52 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB940 million, (ii) an increase in accounts receivable of RMB606 million, (iii) an increase in inventories of RMB815 million and (iv) an increase in restricted cash of RMB1,611 million.

In 2012, we had a cash inflow from operating activities in the amount of RMB19,429 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB18,147 million and changes in working capital in the amount of RMB3,507 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB2,225 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB3,098 million, (ii) an increase in other payables and accruals of RMB1,786 million, (iii) an increase in accounts payable of RMB1,689 million and (iv) an increase in other tax liabilities of RMB397 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB2,255 million, (ii) an increase in accounts receivable of RMB267 million, (iii) an increase in inventories of RMB301 million, and (iv) an increase in restricted cash of RMB640 million.

In 2011, we had a cash inflow from operating activities in the amount of RMB13,358 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB14,017 million and changes in working capital in the amount of RMB1,177 million.

Our net cash inflow from operating activities was after deduction of income tax paid of RMB1,836 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB2,253 million, (ii) an increase in other payables and accruals of RMB2,874 million, (iii) an increase in accounts payable of RMB828 million, partially offset by (i) an increase in prepayments and deposits of RMB2,630 million, (ii) an increase in restricted cash of RMB1,851 million, (iii) an increase in accounts receivable of RMB251 million and (iv) a decrease in other tax liabilities of RMB46 million.

Cash Flows used in Investing Activities

Net cash used in investing activities for the year ended 31 December 2013 was RMB19,134 million (US$3,160 million), primarily reflecting the net payment flow for the term deposits of RMB6,345 million, the payment of interest in associates of RMB4,456 million and the purchase of fixed assets, construction in progress and investment properties of RMB4,788 million, partially offset by interest received of RMB536 million and dividends received of RMB551 million.

Net cash used in investing activities for the year ended 31 December 2012 was RMB16,270 million, primarily reflecting the purchase of fixed assets, construction in progress and investment properties in the amount of RMB3,657 million and payments for interests in associates in the amount of RMB3,668 million, refund of restricted cash in the amount of RMB3,063 million and the net payment flow for term deposits in the amount of RMB10,981 million.

Net cash used in investing activities for the year ended 31 December 2011 was RMB15,355 million, primarily reflecting the purchase of fixed assets, construction in progress and investment properties in the amount of RMB4,060 million and payments for interests in associates in the amount of RMB3,529 million, payment for restricted cash in the amount of RMB2,055 million and the net payment flow for term deposits in the amount of RMB1,991 million.

Cash Flows from/(used in) Financing Activities

Net cash generated from financing activities for the year ended 31 December 2013 was RMB1,708 million (US$282 million), primarily reflecting proceeds from long-term bank borrowings of RMB2,846 million, proceeds from short-term bank borrowings of RMB2,320 million and net proceeds from issuance of long-term notes of RMB1,847 million, partially offset by repayment of long-term bank borrowings of RMB1,328 million, repayment of short-term bank borrowings of RMB986 million, payment for repurchase of shares of RMB1,325 million, dividend paid to the Company's shareholders and the non-controlling interests of RMB1,541 million.

Net cash used in financing activities for the year ended 31 December 2012 was RMB2,386 million, primarily reflecting proceeds from long-term borrowings of RMB2,215 million, proceeds from short-term borrowings of RMB982 million and net proceeds from issuance of long-term notes of RMB3,768 million, partially offset by repayment of short-term borrowings of RMB8,024 million and dividend paid to the Company's shareholders and the non-controlling interests of RMB1,225 million.

Net cash generated from financing activities for the year ended 31 December 2011 was RMB4,373 million, primarily reflecting proceeds from short-term borrowings of RMB6,683 million and net proceeds from issuance of long-term notes of RMB3,761 million, partially offset by repayment of short-term borrowings of RMB3,766 million, payments for repurchase of shares of RMB1,047 million and dividend paid to the Company's shareholders and the non-controlling interests of RMB895 million.

Capital Expenditure

Our capital expenditures consisted of additions (excluding business combinations) to fixed assets which primarily include, computers and servers, construction in progress, land use rights and intangible assets (excluding game and other content licences), were RMB3,689 million, RMB4,493 million and RMB5,799 million (US$958 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

We believe that our existing cash and cash equivalents, cash flows from operations, term deposits will be sufficient to meet the anticipated cash needs for our operating activities and capital expenditures for at least the next 12 months.

INDEBTEDNESS

Our total borrowings amounted to RMB7,999 million, RMB3,183 million and RMB5,912 million (US$977 million) as of 31 December 2011, 2012 and 2013, respectively.

Our total long-term notes payable amounted to RMB3,733, RMB7,517 and RMB9,141 million (US$1,510 million) as of 31 December 2011, 2012 and 2013, respectively. On 12 December 2011, we completed the issue of the 2016 Notes. The 2016 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 2016 Notes will mature on 12 December 2016. See "*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2016 Notes*". On 5 September 2012, we completed the issue of the 2018 Notes. The 2018 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 2018 Notes will mature on 5 March 2018. See "*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2018 Notes*". On 10 September 2013, we completed the issue of the 2015 Notes. The 2015 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 2015 Notes are non-publicly issued and will mature on 10 September 2015. See "*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2015 Notes*"

The following table sets forth our debt as of the dates indicated:

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US$ in millions)
Current:				
RMB bank borrowings				
— secured[1]	2,959	15	—	—
— unsecured	—	25	150	25
	2,959	40	150	25
USD bank borrowings — unsecured[2]	4,411	943	2,134	353
Bonds — unsecured[3]	629	—	—	—
Current portion of long-term USD bank borrowings — unsecured	—	94	305	50
	7,999	**1,077**	**2,589**	**428**
Non-current:				
Non-current portion of long-term USD bank borrowings — unsecured[4]	—	2,106	3,323	549
Total borrowings	**7,999**	**3,183**	**5,912**	**977**
Long-term notes payable[5]	3,733	7,517	9,141	1,510
Total	**11,732**	**10,700**	**15,053**	**2,487**

Notes:

(1) No secured bank borrowings as of 31 December 2013.

(2) Unsecured short-term bank borrowings of carrying amount of RMB2,134 million as of 31 December 2013 were denominated in USD. The aggregate principal amount was US$350 million and the interest rates were LIBOR plus 1.20% to 1.25% per annum.

(3) In March 2011, we issued U.S. dollar denominated bonds at par value of US$100 million. The bonds were unsecured and bore a floating rate of LIBOR plus 0.25% per annum. The bonds matured and were fully paid off in March 2012. The Group also entered into foreign exchange forward contracts to purchase the required amount of U.S. dollar with RMB for settling the principal amount of the bonds upon their due dates.

(4) Unsecured long-term bank borrowing of carrying amount of RMB3,628 million as of 31 December 2013, were denominated in USD. The aggregate principal amount was US$595 million and the interest rate was LIBOR plus 1.05% to 1.97% per annum.

(5) On 12 December 2011, we issued the 2016 Notes in an aggregate principal amount of US$600 million that will mature on 12 December 2016. The 2016 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. The 2016 Notes were issued at 99.740% of the aggregate principal amount. On 5 September 2012, we issued the 2018 Notes in an aggregate principal amount of US$600 million that will mature on 5 March 2018. The 2018 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. The 2018 Notes were issued at 99.771% of the aggregate principal amount. On 10 September 2013, we issued the 2015 Notes in an aggregate principal amount of US$300 million that will mature on 10 September 2015. The 2015 Notes bear interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year. The 2015 Notes were issued at 99.766% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

The following table sets forth our capital commitments as of the dates indicated:

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US$ in millions)
Contracted:				
Construction/purchase of building and purchase of land use right	463	447	2,166	358
Purchase of other fixed assets	132	142	403	66
Capital investment in investees	817	868	854	141
	1,412	1,457	3,423	565
Authorised but not contracted:				
Construction/purchase of building and purchase of land use right	1,187	1,109	851	141
Capital investment in investees	652	451	—	—
	1,839	1,560	851	141
Total	**3,251**	**3,017**	**4,274**	**706**

Operating Lease Commitments

The following table sets forth the future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as of the dates indicated:

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US$ in millions)
Contracted:				
Not later than one year	520	533	760	126
Later than one year and not later than five years	1,463	1,360	2,013	333
Later than five years	286	288	1,455	239
Total	2,269	2,181	4,228	698

Other Commitments

The following table sets forth the future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements as of the dates indicated:

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US$ in millions)
Contracted:				
Not later than one year	596	1,052	1,397	231
Later than one year and not later than five years	768	1,299	1,299	214
Total	1,364	2,351	2,696	445

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as of 31 December 2013.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Interest Rate Risk

We have interest-bearing assets including receivables in associates, term deposits and cash and cash equivalents. Our exposure to market rate risk for changes in interest rates relates primarily to our debt (including borrowings and long-term notes issued). Borrowings issued at variable rates expose us to cash flows interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. We have had bank borrowings and issued long-term notes denominated in U.S. dollars having variable and fixed interest rates as of 31 December 2013.

Price Risk

We are exposed to price risk because of our investments which are classified as available-for-sale financial assets and derivative financial instruments. These investments were made either for improving investment yield, maintaining high liquidity level simultaneously, or were strategic investments. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by our senior management, including the executive Directors, on a case by case basis. These investments are held for strategic rather than trading purposes and we do not actively trade these investments. We are not exposed to commodity price risk.

Credit Risk

We are exposed to credit risk in relation to our cash and deposits (including restricted cash) with banks and financial institutions and other investments, as well as accounts and other receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets. To manage this risk, deposits are primarily placed with state-owned financial institutions in the PRC and high quality international financial institutions outside the PRC. There was no recent history of default of cash and cash equivalents and term deposits in relation to these financial institutions.

We may be also exposed to risks relating to our accounts receivable from telecommunications operators and advertising customers. A large portion of our Internet and Mobile Services Fees are derived from the service agreements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled back, the telecommunications operators alter the service agreements, or these operators experience financial difficulties and are unable to pay us, our VAS might be adversely affected in terms of recoverability of receivables. To manage this risk, we maintain frequent communication with the telecommunications operators to ensure the co-operation is effective. In view of our history of co-operation with the telecommunications operators and the sound collection history of receivables due from them, we believe that the credit risk inherent in our outstanding accounts receivable balances from these telecommunications operators is low.

We manage the risk relating to our accounts receivables from advertising customers by assessing the credit quality of each customer, taking into account their financial position, past experience and other factors, generally required prepayments representing a certain percentage of the total service fees for each advertising service.

Foreign Currency Exchange Risk

We mainly operate in the PRC with most of our transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in our activities including payment of dividends, share repurchases and offshore investments and operations, we hold some monetary assets denominated in U.S. dollars, H.K. dollars, Euro, Korea Won and New Taiwan Dollar subject to certain thresholds stated in our treasury mandate, borrow some loans denominated in U.S. dollars and issue long-term notes denominated in U.S. dollars from time to time. This exposes us to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to U.S. dollars, H.K. dollars, Euro, Korea Won and New Taiwan Dollar as management considers that such risk cannot be effectively reduced in a low-cost way. In the past, we entered into certain foreign exchange forward contracts arrangements for managing our foreign exchange risk in relation to banks loans denominated in U.S. dollars.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of our underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents. In order to improve liquidity, we also issued long-term notes and entered into long-term borrowings. We will, based on an assessment of relevant future costs and benefits, pursue such funding options as are appropriate.