

Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號 : 700)

2019 Interim Report



smart communication inspires

智慧溝通 靈感無限

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Corporate Information

DIRECTORS

Executive Directors

Ma Huateng (*Chairman*)

Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker

Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

AUDIT COMMITTEE

Yang Siu Shun (*Chairman*)

Iain Ferguson Bruce

Ian Charles Stone

Charles St Leger Searle

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

INVESTMENT COMMITTEE

Lau Chi Ping Martin (*Chairman*)

Ma Huateng

Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng (*Chairman*)

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Charles St Leger Searle

REMUNERATION COMMITTEE

Ian Charles Stone (*Chairman*)

Li Dong Sheng

Jacobus Petrus (Koos) Bekker

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

PRINCIPAL BANKERS

Bank of China Limited

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

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Grand Cayman, KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

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Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

Financial Performance Highlights

SECOND QUARTER OF 2019

	30 June 2019	Unaudited Three months ended			Quarter- on-quarter change
		30 June 2018	Year- on-year change	31 March 2019	
(RMB in millions, unless specified)					
Revenues	88,821	73,675	21%	85,465	4%
Gross profit	39,126	34,446	14%	39,820	-2%
Operating profit	27,521	21,807	26%	36,742	-25%
Profit for the period	24,684	18,580	33%	27,856	-11%
Profit attributable to equity holders of the Company	24,136	17,867	35%	27,210	-11%
Non-GAAP profit attributable to equity holders of the Company	23,525	19,716	19%	20,930	12%
EPS (RMB per share)					
– basic	2.550	1.893	35%	2.877	-11%
– diluted	2.520	1.868	35%	2.844	-11%
Non-GAAP EPS (RMB per share)					
– basic	2.486	2.089	19%	2.213	12%
– diluted	2.456	2.062	19%	2.187	12%

Financial Performance Highlights

FIRST HALF OF 2019

	Unaudited		
	Six months ended		
	30 June 2019	30 June 2018	Year- on-year change
	(RMB in millions, unless specified)		
Revenues	174,286	147,203	18%
Gross profit	78,946	71,488	10%
Operating profit	64,263	52,499	22%
Profit for the period	52,540	42,553	23%
Profit attributable to equity holders of the Company	51,346	41,157	25%
Non-GAAP profit attributable to equity holders of the Company	44,455	38,029	17%
EPS (RMB per share)			
– basic	5.427	4.363	24%
– diluted	5.362	4.303	25%
Non-GAAP EPS (RMB per share)			
– basic	4.699	4.031	17%
– diluted	4.643	3.976	17%

Chairman's Statement

I am pleased to present our interim report for the three and six months ended 30 June 2019 to the shareholders.

RESULTS

The Group's unaudited profit attributable to equity holders of the Company for the three and six months ended 30 June 2019 increased by 35% and 25% on a year-on-year basis to RMB24,136 million and RMB51,346 million respectively. Basic EPS for the three and six months ended 30 June 2019 were RMB2.550 and RMB5.427 respectively. Diluted EPS for the three and six months ended 30 June 2019 were RMB2.520 and RMB5.362 respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the three and six months ended 30 June 2019 increased by 19% and 17% on a year-on-year basis to RMB23,525 million and RMB44,455 million respectively. Non-GAAP basic EPS for the three and six months ended 30 June 2019 were RMB2.486 and RMB4.699 respectively. Non-GAAP diluted EPS for the three and six months ended 30 June 2019 were RMB2.456 and RMB4.643 respectively.

BUSINESS REVIEW AND OUTLOOK

1. Company Strategic Highlights

During the second quarter, we sustained solid user, revenue, and profit growth, and executed on key initiatives amid the challenging business environment. In recent months, we enhanced our products, extended our key platforms, and deepened our relationships with large and small partners. For example:

- We accelerated our rate of innovation in games, successfully releasing new games in several different genres, introducing new modes within some of our key titles, and extending our season passes. Meanwhile, we continue to strengthen the Healthy Gameplay System for promoting balanced gameplay for young users.
- We widened merchant acceptance for our mobile payment services, contributing to rapid growth in average transaction volume and in total payment volume, as well as ongoing growth in commercial payment users.
- We extended and deepened our exclusive relationship with the National Basketball Association ("NBA"), the most-watched professional sports league in China, reinforcing our position as a leading digital entertainment platform.

Amid the evolving macro-economic and competitive challenges, we continue to invest in enhancing our platforms, services and technologies, for better supporting our users and enterprise customers.

Chairman's Statement

Communication and Social

During the second quarter of 2019, combined MAU of Weixin and WeChat was 1,133 million, up 7% year-on-year. Smart device MAU of QQ was 707 million, broadly stable year-on-year.

Weixin Mini Programs ecosystem has become more vibrant, attracting more developers and service providers. The number of medium-to-long-tail Mini Programs has more than doubled year-on-year while the nature of Mini Programs has become more diversified. For example, content Mini Programs allow users to conveniently create, upload and share interesting videos, music and news within Weixin. More than a dozen content Mini Programs have attained over 1 million DAU. Key user metrics including time spent per user, daily messages and video uploads sustained solid year-on-year growth during the second quarter.

We launched a major version upgrade for Mobile QQ, which contributed to an increase in the number of daily messages and strengthened user engagement. To enrich the core chat experience, we enhanced functionalities for messages in different forms such as voice and video. To broaden user connections, we upgraded algorithms to recommend new friends based on common interests and shared contacts. We introduced QQ Mini Programs, with entertainment and games-related Mini Programs attaining particular popularity among QQ users.

Online Games

Total online games revenues increased 8% year-on-year to RMB27.3 billion.

Smart phone games revenues (including smart phone games revenues attributable to our social networks business) amounted to RMB22.2 billion, up 26% year-on-year due to the popularity of existing key titles and recent releases. Sequentially, smart phone games revenues were up 5% quarter-on-quarter as we launched more games following monetisation licence approval resumption, offsetting weak seasonality. During the quarter, we released 10 games including an in-house AR game, Catchya, and in-house RPGs, Fairy Tail and Raziel, compared with only one game in the first quarter. Honour of Kings revenue increased year-on-year. Perfect World Mobile, a licensed RPG that we launched in March, contributed substantially to our second quarter revenue. Our in-house tactical tournament game, Peacekeeper Elite, has exceeded 50 million DAU since its launch in May and begun monetisation with a successful season pass offering, although reported revenue was limited in the second quarter due to the deferral impact.

Chairman's Statement

We are in the early stages of implementing season passes for several of our key titles, contributing to paying propensity within those games. Our data suggest that season pass spending is largely complementary to the existing item sales model, and also enhances player activity. In July, we released three smart phone games in different game genres, including racing game KartRider Rush, strategy game Game of Thrones: Winter is Coming, and RPG Dragon Raja. All three have achieved top 10 positions in the iOS Grossing Chart for games in China. Internationally, we expanded our user base via our hit title PUBG MOBILE (which has exceeded 50 million DAU) and new games such as Speed Drifter (the international version of QQ Speed) and Chess Rush.

Our PC client games revenues were RMB11.7 billion, down 9% year-on-year, despite increased cash receipts, and down 15% quarter-on-quarter due to weak seasonality. League of Legends cash receipts increased year-on-year driven by popular eSports-themed skins. In June, League of Legends introduced a new play mode, Teamfight Tactics, contributing to growth in its DAU and user time spent. Teamfight Tactics is the global leader in the emerging auto-chess category. DnF has reduced monetisation as we focus on enhancing its user experience.

Digital Content

Our fee-based VAS subscriptions increased 10% year-on-year to 168.9 million, mainly attributable to video and music subscriptions. Tencent Video subscription counts were 96.9 million, up 30% year-on-year, benefitting from joint membership promotions with our strategic partners and our popular self-commissioned Chinese anime series, The Land of Warriors Season 2. However, the growth in our video subscriber base slowed, due to the delay in scheduling of top-tier drama series content.

During the 2018-2019 season of the NBA, 490 million Internet users in China watched one or more games on our platforms, nearly tripling the number of Internet users who watched the NBA on Tencent platforms during the 2014-2015 season. Our partnership did not only increase fans engagement, brand power and monetisation capability for the NBA, but also reinforced Tencent Sports as the top Internet destination for sports fans in China, contributing to our advertising and subscription revenues. Recently, we announced a five-year partnership extension with the NBA. We will cooperate with the NBA in developing basketball-related smart phone games and eSports events.

Chairman's Statement

Online Advertising

Our online advertising revenues were RMB16.4 billion, up 16% year-on-year, amid the challenging macro environment and increased supply of short video advertising inventories across the industry. We expect the negative impact from the current business environment will persist in the second half of 2019. Sequentially, revenues grew due to seasonal advertising demand from eCommerce and online education sectors. Social and others advertising revenues were RMB12.0 billion, up 28% year-on-year, driven by increased inventories and impressions for products such as Weixin Moments and QQ KanDian.

Media advertising revenues were RMB4.4 billion, down 7% year-on-year, as unexpected delays to airing certain top-tier drama series and the absence of the FIFA World Cup this year resulted in less sponsorship advertising revenues. Mobile video DAU remained stable, contributing to notable year-on-year and quarter-on-quarter growth from in-feed advertising within our Tencent Video app. In April, we released *The Chuang* (創造營2019), a highly popular self-commissioned variety show, which achieved record advertising billings for a program on Tencent Video.

FinTech and Business Services

FinTech and Business Services revenues were RMB22.9 billion, up 37% year-on-year. Excluding interest income on custodian cash balances, revenues were up 57% year-on-year. Within FinTech Services, commercial payments grew rapidly in terms of users, merchants, transaction volume and revenues, driving the segment revenue growth. Our wealth management platform, LiCaiTong, grew its aggregated customer assets to over RMB800 billion as of the end of the second quarter, indicating a trend that our users are increasingly utilising their money within our payment ecosystem. This trend brings down the frictional costs for users to use Weixin Pay, reducing our withdrawal fee revenue and bank charge expenses. We believe the overall impact will contribute to the vitality of our FinTech business in the long run. We remain focused on risk management of our FinTech businesses to sustain our long-term platform growth.

Within Business Services, cloud revenues grew robustly year-on-year as we expanded our sales team and product offerings to sign up more key accounts and large contracts. Meanwhile, we have deepened our penetration in small and medium businesses through close partnerships with Independent Software Vendors and resellers. We further strengthened the cloud-based development kits for Mini Programs developers to enable more efficient development processes, operations and maintenance. In the financial sector, we attained key contracts from insurance companies, banks and brokerage firms, including PICC, Bank of Communications and Haitong Securities. In July, we launched our "WeCity" cloud-based smart industry solutions for public services such as healthcare, transportation and education in various cities, including Changsha. According to the International Data Corporation, we ranked second in the public cloud IaaS market in China, and were among the top ten globally, in 2018.

Chairman's Statement

DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

APPRECIATION

On behalf of the Board, I would like to thank our staff and management team for their commitment, great determination and professionalism. I would also like to express our appreciation to our shareholders and stakeholders for their strong support. Together, we are confident that our commitment to building an ecosystem that prioritises our users' needs in both Consumer Internet and Industry Internet will create long-term value for our shareholders.

Ma Huateng

Chairman

Hong Kong, 14 August 2019

Management Discussion and Analysis

SECOND QUARTER OF 2019 COMPARED TO SECOND QUARTER OF 2018

The following table sets forth the comparative figures for the second quarter of 2019 and the second quarter of 2018:

	Unaudited	
	Three months ended	
	30 June	30 June
	2019	2018
	(RMB in millions)	
Revenues	88,821	73,675
Cost of revenues	(49,695)	(39,229)
Gross profit	39,126	34,446
Interest income	1,652	1,072
Other gains, net	4,038	2,506
Selling and marketing expenses	(4,718)	(6,360)
General and administrative expenses	(12,577)	(9,857)
Operating profit	27,521	21,807
Finance costs, net	(1,982)	(1,151)
Share of profit of associates and joint ventures	2,370	1,526
Profit before income tax	27,909	22,182
Income tax expense	(3,225)	(3,602)
Profit for the period	24,684	18,580
Attributable to:		
Equity holders of the Company	24,136	17,867
Non-controlling interests	548	713
	24,684	18,580
Non-GAAP profit attributable to equity holders of the Company	23,525	19,716

Management Discussion and Analysis

Revenues. Revenues increased by 21% to RMB88,821 million for the second quarter of 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2019 and the second quarter of 2018:

	Unaudited			
	Three months ended			
	30 June 2019		30 June 2018	
	Amount	% of total revenues	Amount (Restated)	% of total revenues (Restated)
	(RMB in millions, unless specified)			
VAS	48,080	54%	42,069	57%
FinTech and Business Services	22,888	26%	16,666	23%
Online Advertising	16,409	18%	14,110	19%
Others	1,444	2%	830	1%
Total revenues	<u>88,821</u>	<u>100%</u>	<u>73,675</u>	<u>100%</u>

- Revenues from VAS increased by 14% to RMB48,080 million for the second quarter of 2019 on a year-on-year basis. Online games revenues grew by 8% to RMB27,307 million. The increase was primarily due to revenue growth from smart phone games, including existing titles such as Honour of Kings and PUBG MOBILE, as well as recently launched titles such as Perfect World Mobile, offset by a decline in revenues from PC client games. Social networks revenues grew by 23% to RMB20,773 million. The increase mainly reflected higher revenues from digital content services such as live broadcast services and video streaming subscriptions.
- Revenues from FinTech and Business Services increased by 37% to RMB22,888 million for the second quarter of 2019 on a year-on-year basis. The increase was primarily driven by revenue growth from commercial payment and cloud services, partly offset by the absence of interest income after transferring custodian cash balances to the People's Bank of China.
- Revenues from Online Advertising increased by 16% to RMB16,409 million for the second quarter of 2019 on a year-on-year basis. Social and others advertising revenues increased by 28% to RMB12,009 million, mainly benefiting from greater advertising revenue contributions from Weixin Moments and QQ KanDian. Media advertising revenues decreased by 7% to RMB4,400 million, primarily reflecting lower contributions from our media platforms due to the absence of the FIFA World Cup tournament.

Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 27% to RMB49,695 million for the second quarter of 2019 on a year-on-year basis. The increase mainly reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 56% for the second quarter of 2019 from 53% for the second quarter of 2018. The following table sets forth our cost of revenues by line of business for the second quarter of 2019 and the second quarter of 2018:

	Unaudited			
	Three months ended			
	30 June 2019		30 June 2018	
	Amount	% of segment revenues	Amount (Restated)	% of segment revenues (Restated)
(RMB in millions, unless specified)				
VAS	22,783	47%	17,253	41%
FinTech and Business Services	17,391	76%	12,327	74%
Online Advertising	8,432	51%	8,838	63%
Others	1,089	75%	811	98%
Total cost of revenues	<u>49,695</u>		<u>39,229</u>	

- Cost of revenues for VAS increased by 32% to RMB22,783 million for the second quarter of 2019 on a year-on-year basis. The increase was mainly due to higher content costs for services and products including live broadcast and online games, as well as greater channel costs for smart phone games.
- Cost of revenues for FinTech and Business Services increased by 41% to RMB17,391 million for the second quarter of 2019 on a year-on-year basis. The increase mainly reflected the expanding scale of our FinTech and cloud services.
- Cost of revenues for Online Advertising decreased by 5% to RMB8,432 million for the second quarter of 2019 on a year-on-year basis. The decrease was mainly driven by lower content costs for video advertising due to delays in airing of certain drama series.

Management Discussion and Analysis

Other gains, net. We recorded net other gains of RMB4,038 million for the second quarter of 2019, which mainly comprised of non-GAAP adjustment items such as net deemed disposal gains arising from the capital activities of certain investee companies in verticals including transportation network, as well as fair value gains benefiting from increased valuations for certain investee companies in verticals such as healthcare and media, partly offset by impairment provisions against certain investments.

Selling and marketing expenses. Selling and marketing expenses decreased by 26% to RMB4,718 million for the second quarter of 2019 on a year-on-year basis. The decrease was mainly driven by the reduction of advertising and promotion expenses as a result of internal initiatives to reduce less effective marketing campaigns. As a percentage of revenues, selling and marketing expenses decreased to 5% for the second quarter of 2019 from 9% for the second quarter of 2018.

General and administrative expenses. General and administrative expenses increased by 28% to RMB12,577 million for the second quarter of 2019 on a year-on-year basis. The increase primarily reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses increased to 14% for the second quarter of 2019 from 13% for the second quarter of 2018.

Finance costs, net. Net finance costs increased by 72% to RMB1,982 million for the second quarter of 2019 on a year-on-year basis. The increase was primarily driven by greater interest expenses arising from the issuance of USD6 billion notes in April 2019, as well as the recognition of foreign exchange losses for the second quarter of 2019 resulting from the depreciation of RMB against USD.

Income tax expense. Income tax expense decreased by 10% to RMB3,225 million for the second quarter of 2019 on a year-on-year basis. The decrease was mainly driven by entitlements of preferential tax treatments and benefits.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 35% to RMB24,136 million for the second quarter of 2019 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 19% to RMB23,525 million.

Management Discussion and Analysis

SECOND QUARTER OF 2019 COMPARED TO FIRST QUARTER OF 2019

The following table sets forth the comparative figures for the second quarter of 2019 and the first quarter of 2019:

	Unaudited	
	Three months ended	
	30 June	31 March
	2019	2019
	(RMB in millions)	
Revenues	88,821	85,465
Cost of revenues	(49,695)	(45,645)
Gross profit	39,126	39,820
Interest income	1,652	1,408
Other gains, net	4,038	11,089
Selling and marketing expenses	(4,718)	(4,244)
General and administrative expenses	(12,577)	(11,331)
Operating profit	27,521	36,742
Finance costs, net	(1,982)	(1,117)
Share of profit/(loss) of associates and joint ventures	2,370	(2,957)
Profit before income tax	27,909	32,668
Income tax expense	(3,225)	(4,812)
Profit for the period	24,684	27,856
Attributable to:		
Equity holders of the Company	24,136	27,210
Non-controlling interests	548	646
	24,684	27,856
Non-GAAP profit attributable to equity holders of the Company	23,525	20,930

Management Discussion and Analysis

Revenues. Revenues increased by 4% to RMB88,821 million for the second quarter of 2019 on a quarter-on-quarter basis.

- Revenues from VAS decreased by 2% to RMB48,080 million for the second quarter of 2019. Online games revenues decreased by 4% to RMB27,307 million, primarily driven by seasonally lower revenues from our PC client games, partly offset by revenue growth contributed by our smart phone games including existing titles such as PUBG MOBILE, as well as recently launched titles such as Perfect World Mobile, Catchya and Peacekeeper Elite. Social networks revenues increased by 2% to RMB20,773 million. The increase mainly benefited from growth of our digital content services such as live broadcast services.
- Revenues from FinTech and Business Services increased by 5% to RMB22,888 million for the second quarter of 2019. The increase was primarily due to revenue contributions from our commercial payment and cloud services.
- Revenues from Online Advertising increased by 23% to RMB16,409 million for the second quarter of 2019. Social and others advertising revenues increased by 21% to RMB12,009 million, mainly driven by advertising revenue growth from Weixin Moments, as well as our mobile advertising network. Media advertising revenues increased by 26% to RMB4,400 million, primarily reflecting greater contributions from our media platforms including Tencent Video due to positive seasonality and the airing of more drama series and self-commissioned variety shows in the second quarter compared to the previous quarter.

Cost of revenues. Cost of revenues increased by 9% to RMB49,695 million for the second quarter of 2019 on a quarter-on-quarter basis. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 56% for the second quarter of 2019 from 53% for the first quarter of 2019.

- Cost of revenues for VAS increased by 10% to RMB22,783 million for the second quarter of 2019. The increase was mainly driven by greater content costs for services including video streaming subscriptions and live broadcast, as well as higher channel costs for smart phone games.
- Cost of revenues for FinTech and Business Services increased by 12% to RMB17,391 million for the second quarter of 2019. The increase primarily reflected greater costs of FinTech services, resulting from the growth in commercial payment services.
- Cost of revenues for Online Advertising increased by 8% to RMB8,432 million for the second quarter of 2019. The increase was primarily due to greater content costs for video advertising resulting from the airing of more drama series and self-commissioned variety shows in the second quarter compared to the preceding quarter.

Management Discussion and Analysis

Note:

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

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

	Unaudited			Unaudited	
	Three months ended		Six months ended		
	30 June	31 March	30 June	30 June	30 June
	2019	2019	2018	2019	2018
	(RMB in millions, unless specified)				
Operating profit	27,521	36,742	21,807	64,263	52,499
Adjustments:					
Interest income	(1,652)	(1,408)	(1,072)	(3,060)	(2,137)
Other (gains)/losses, net	(4,038)	(11,089)	(2,506)	(15,127)	(10,091)
Depreciation of property, plant and equipment and investment properties	2,989	2,804	1,918	5,793	3,582
Depreciation of right-of-use assets	748	602	–	1,350	–
Amortisation of intangible assets	7,081	5,915	6,262	12,996	11,803
EBITDA	32,649	33,566	26,409	66,215	55,656
Equity-settled share-based compensation	2,453	2,032	1,730	4,485	3,339
Adjusted EBITDA	35,102	35,598	28,139	70,700	58,995

Management Discussion and Analysis

NON-GAAP FINANCIAL MEASURES

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's major associates based on available published financials of the relevant major associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the second quarter of 2019 and 2018, the first quarter of 2019, and the first half of 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 30 June 2019							
	Adjustments						Non-GAAP
	As reported	Share-based compensation	Net (gains)/ losses from investee companies	Amortisation of intangible assets	Impairment provision	Income tax effects	
	(a)	(b)	(c)	(d)	(e)		
(RMB in millions, unless specified)							
Operating profit	27,521	2,453	(4,950)	118	2,139	–	27,281
Profit for the period	24,684	2,373	(6,523)	1,486	2,492	(321)	24,191
Profit attributable to equity holders	24,136	2,296	(6,522)	1,432	2,492	(309)	23,525
EPS (RMB per share)							
– basic	2.550						2.486
– diluted	2.520						2.456
Operating margin	31%						31%
Net margin	28%						27%

Management Discussion and Analysis

Unaudited three months ended 31 March 2019

	Adjustments						Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	36,742	2,033	(10,546)	114	127	–	28,470
Profit for the period	27,856	2,868	(10,374)	1,084	589	(350)	21,673
Profit attributable to equity holders	27,210	2,782	(10,351)	1,033	589	(333)	20,930
EPS (RMB per share)							
– basic	2.877						2.213
– diluted	2.844						2.187
Operating margin	43%						33%
Net margin	33%						25%

Unaudited three months ended 30 June 2018

	Adjustments						Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	21,807	1,798	(4,010)	99	2,564	–	22,258
Profit for the period	18,580	2,562	(4,232)	831	2,578	180	20,499
Profit attributable to equity holders	17,867	2,478	(4,170)	790	2,578	173	19,716
EPS (RMB per share)							
– basic	1.893						2.089
– diluted	1.868						2.062
Operating margin	30%						30%
Net margin	25%						28%

Management Discussion and Analysis

Unaudited six months ended 30 June 2019

	Adjustments						Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	64,263	4,486	(15,496)	232	2,266	–	55,751
Profit for the period	52,540	5,241	(16,897)	2,570	3,081	(671)	45,864
Profit attributable to equity holders	51,346	5,078	(16,873)	2,465	3,081	(642)	44,455
EPS (RMB per share)							
– basic	5.427						4.699
– diluted	5.362						4.643
Operating margin	37%						32%
Net margin	30%						26%

Unaudited six months ended 30 June 2018

	Adjustments						Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	52,499	3,430	(11,798)	199	3,200	–	47,530
Profit for the period	42,553	4,244	(12,378)	1,381	3,292	537	39,629
Profit attributable to equity holders	41,157	4,063	(12,319)	1,296	3,290	542	38,029
EPS (RMB per share)							
– basic	4.363						4.031
– diluted	4.303						3.976
Operating margin	36%						32%
Net margin	29%						27%

Management Discussion and Analysis

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies
- (c) Amortisation of intangible assets resulting from acquisitions
- (d) Impairment provisions for associates, joint ventures and intangible assets arising from acquisitions
- (e) Income tax effects of non-GAAP adjustments

INVESTMENTS HELD

As at 30 June 2019, our investment portfolio amounted to approximately RMB417,049 million (31 December 2018: RMB369,186 million) as recorded in the consolidated statement of financial position under various categories including:

- investments in associates and joint ventures which are accounted for by using equity method;
- financial assets at fair value through profit or loss and through other comprehensive income.

Changes in respective items in the consolidated statement of financial position have been disclosed in the notes to the interim financial information in this interim report.

We manage our investment portfolio with a primary objective to strengthen our leading position in core businesses and complement our “Connection” strategy in various industries, particularly in social and digital content, O2O and smart retail sectors. We also invest in transportation, FinTech, cloud and other sectors.

The fair value of our stakes in listed investee companies (excluding subsidiaries) amounted to RMB329,012 million as at 30 June 2019 (31 December 2018: RMB238,040 million). Other than Meituan Dianping, none of the carrying amount of any of our investments (including those in the listed investee companies) constitutes 5% or more of our total assets as at 30 June 2019.

Save as disclosed herein, there are no material changes in our investment portfolio affecting the Company's performance that need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules.

Management Discussion and Analysis

We recorded return from our investment portfolio at RMB12,953 million for the six months ended 30 June 2019, with an increase of 31% compared to the same period of last year. Details of our return from investment portfolio are as follows:

Income of Principal Investment (Classified by nature of income)	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Dividends income	300	274	542	319
Net gains on disposals and deemed disposals of investee companies	2,850	725	6,517	2,297
Net fair value gains	2,100	3,285	8,979	9,501
Impairment provision for investee companies and intangible assets from acquisitions	(2,139)	(2,564)	(2,266)	(3,200)
Share of profit/(loss) of associates and joint ventures	2,370	1,526	(587)	1,207
Amortisation of intangible assets resulting from acquisitions	(118)	(99)	(232)	(199)

We continue to closely monitor the performance of our investment portfolio and strategically make investments, M&A, and explore opportunities in monetising some of the existing investments if appropriate opportunities in the market arise.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Our cash positions as at 30 June 2019 and 31 March 2019 are as follows:

	Unaudited 30 June 2019	Unaudited 31 March 2019
	(RMB in millions)	
Cash and cash equivalents	122,838	109,692
Term deposits and others	61,588	64,985
	184,426	174,677
Borrowings	(107,729)	(120,475)
Notes payable	(92,463)	(63,797)
Net debt	(15,766)	(9,595)
Fair value of our stakes in listed investee companies (excluding subsidiaries)	329,012	310,712

As at 30 June 2019, the Group had net debt of RMB15,766 million. The sequential increase in indebtedness mainly reflected payment of our final dividend for the year ended 31 December 2018.

For the second quarter of 2019, the Group had free cash flow of RMB20,698 million. This was a result of net cash flow generated from operating activities of RMB25,005 million, offset by payments for capital expenditure of RMB4,307 million.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 85, which comprises the consolidated statement of financial position of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2019 and the consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14 August 2019

Consolidated Income Statement

For the three and six months ended 30 June 2019

	Note	Unaudited		Unaudited	
		Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
Value-added Services		48,080	42,069	97,054	88,946
FinTech and Business Services		22,888	16,666	44,677	31,848
Online Advertising		16,409	14,110	29,786	24,799
Others		1,444	830	2,769	1,610
	7	88,821	73,675	174,286	147,203
Cost of revenues	9	(49,695)	(39,229)	(95,340)	(75,715)
Gross profit		39,126	34,446	78,946	71,488
Interest income		1,652	1,072	3,060	2,137
Other gains, net	8	4,038	2,506	15,127	10,091
Selling and marketing expenses	9	(4,718)	(6,360)	(8,962)	(11,930)
General and administrative expenses	9	(12,577)	(9,857)	(23,908)	(19,287)
Operating profit		27,521	21,807	64,263	52,499
Finance costs, net	10	(1,982)	(1,151)	(3,099)	(1,805)
Share of profit/(loss) of associates and joint ventures		2,370	1,526	(587)	1,207
Profit before income tax		27,909	22,182	60,577	51,901
Income tax expense	11	(3,225)	(3,602)	(8,037)	(9,348)
Profit for the period		24,684	18,580	52,540	42,553
Attributable to:					
Equity holders of the Company		24,136	17,867	51,346	41,157
Non-controlling interests		548	713	1,194	1,396
		24,684	18,580	52,540	42,553
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
– basic	12(a)	2.550	1.893	5.427	4.363
– diluted	12(b)	2.520	1.868	5.362	4.303

The accompanying notes on pages 37 to 85 form an integral part of this interim financial information.

Consolidated Statement of Comprehensive Income

For the three and six months ended 30 June 2019

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	24,684	18,580	52,540	42,553
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive loss of associates and joint ventures	(2)	(123)	(28)	(28)
Currency translation differences	3,059	5,579	1,060	200
Other fair value (losses)/gains	(1,388)	332	(2,036)	1,193
<i>Items that will not be subsequently reclassified to profit or loss</i>				
Net gains/(losses) from changes in fair value of financial assets at fair value through other comprehensive income	2,582	(535)	16,847	535
Other fair value losses	(70)	(72)	(71)	(113)
	4,181	5,181	15,772	1,787
Total comprehensive income for the period	28,865	23,761	68,312	44,340
Attributable to:				
Equity holders of the Company	28,080	22,636	66,571	42,780
Non-controlling interests	785	1,125	1,741	1,560
	28,865	23,761	68,312	44,340

The accompanying notes on pages 37 to 85 form an integral part of this interim financial information.

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	14	40,157	35,091
Right-of-use assets	4,16	10,816	–
Land use rights	15	7,180	7,106
Construction in progress	14	2,318	4,879
Investment properties	14	909	725
Intangible assets	14	56,256	56,650
Investments in associates	17	227,187	219,215
Investments in joint ventures		8,560	8,575
Financial assets at fair value through profit or loss	18	107,575	91,702
Financial assets at fair value through other comprehensive income	19	69,068	43,519
Prepayments, deposits and other assets	20	26,491	21,531
Other financial assets	21	187	1,693
Deferred income tax assets	22	16,883	15,755
		573,587	506,441
Current assets			
Inventories		312	324
Accounts receivable	23	32,199	28,427
Prepayments, deposits and other assets	20	23,504	18,493
Other financial assets	21	714	339
Financial assets at fair value through profit or loss	18	4,659	6,175
Term deposits		57,037	62,918
Restricted cash		2,014	2,590
Cash and cash equivalents		122,838	97,814
		243,277	217,080
Total assets		816,864	723,521

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	24	–	–
Share premium		31,667	27,294
Shares held for share award schemes		(3,936)	(4,173)
Other reserves		16,038	729
Retained earnings		342,687	299,660
		386,456	323,510
Non-controlling interests		34,576	32,697
Total equity		421,032	356,207
LIABILITIES			
Non-current liabilities			
Borrowings	26	82,038	87,437
Notes payable	27	82,096	51,298
Long-term payables	28	2,873	4,797
Other financial liabilities	6(c)	2,025	3,306
Deferred income tax liabilities	22	10,547	10,964
Lease liabilities	4	8,662	–
Deferred revenue	31	5,643	7,077
		193,884	164,879

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Current liabilities			
Accounts payable	29	67,764	73,735
Other payables and accruals	30	32,314	33,312
Borrowings	26	25,691	26,834
Notes payable	27	10,367	13,720
Current income tax liabilities		9,711	10,210
Other tax liabilities		1,248	1,049
Other financial liabilities	6(c)	1,228	1,200
Lease liabilities	4	2,778	–
Deferred revenue	31	50,847	42,375
		201,948	202,435
Total liabilities		395,832	367,314
Total equity and liabilities		816,864	723,521

The accompanying notes on pages 37 to 85 form an integral part of this interim financial information.

On behalf of the Board

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2019	-	27,294	(4,173)	729	299,660	323,510	32,697	356,207
Comprehensive income								
Profit for the period	-	-	-	-	51,346	51,346	1,194	52,540
Other comprehensive income, net of tax:								
- share of other comprehensive loss of associates and joint ventures	-	-	-	(27)	-	(27)	(1)	(28)
- net gains from changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	16,373	-	16,373	474	16,847
- currency translation differences	-	-	-	986	-	986	74	1,060
- other fair value losses, net	-	-	-	(2,107)	-	(2,107)	-	(2,107)
Total comprehensive income for the period	-	-	-	15,225	51,346	66,571	1,741	68,312
Share of other changes in net assets of associates	-	-	-	881	-	881	-	881

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	237	237
Employee share option schemes:								
– value of employee services	-	1,090	-	22	-	1,112	22	1,134
– proceeds from shares issued	-	110	-	-	-	110	-	110
Employee share award schemes:								
– value of employee services	-	3,018	-	209	-	3,227	144	3,371
– shares withheld for share award schemes	-	-	(369)	-	-	(369)	-	(369)
– vesting of awarded shares	-	(606)	606	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	14	(14)	-	-	-
Dividends	-	-	-	-	(8,305)	(8,305)	(23)	(8,328)
Non-controlling interests arising from business combination	-	-	-	-	-	-	51	51
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	273	-	(258)	-	15	(628)	(613)
Dilution of interests in subsidiaries	-	-	-	(212)	-	(212)	267	55
Transfer of equity interests of subsidiaries to non-controlling interests	-	488	-	(572)	-	(84)	68	(16)
Total transactions with equity holders at their capacity as equity holders for the period	-	4,373	237	(797)	(8,319)	(4,506)	138	(4,368)
Balance at 30 June 2019	-	31,667	(3,936)	16,038	342,687	386,456	34,576	421,032

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 31 December 2017, as previously reported	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9	–	–	–	(16,210)	16,210	–	–	–
Balance at 1 January 2018	–	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
Comprehensive income								
Profit for the period	–	–	–	–	41,157	41,157	1,396	42,553
Other comprehensive income, net of tax:								
– share of other comprehensive loss of associates and joint ventures	–	–	–	(28)	–	(28)	–	(28)
– net gains from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	520	–	520	15	535
– currency translation differences	–	–	–	51	–	51	149	200
– other fair value gains, net	–	–	–	1,080	–	1,080	–	1,080
Total comprehensive income for the period	–	–	–	1,623	41,157	42,780	1,560	44,340
Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(3,313)	3,313	–	–	–
Share of other changes in net assets of associates	–	–	–	577	–	577	–	577

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	76	76
Employee share option schemes:								
– value of employee services	-	884	-	38	-	922	35	957
– proceeds from shares issued	-	336	-	-	-	336	-	336
Employee share award schemes:								
– value of employee services	-	2,035	-	226	-	2,261	121	2,382
– shares withheld for share award schemes	-	-	(701)	-	-	(701)	-	(701)
– vesting of awarded shares	-	(487)	487	-	-	-	-	-
Tax benefit from share-based payments of a subsidiary	-	-	-	140	-	140	-	140
Profit appropriations to statutory reserves	-	-	-	35	(35)	-	-	-
Dividends	-	-	-	-	(6,776)	(6,776)	(432)	(7,208)
Non-controlling interests arising from business combination	-	-	-	-	-	-	988	988
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	243	-	(234)	-	9	(110)	(101)
Partial disposal of a subsidiary	-	-	-	-	-	-	(34)	(34)
Dilution of interests in subsidiaries	-	-	-	474	-	474	1,829	2,303
Transfer of equity interests of subsidiaries to non-controlling interests	-	-	-	(904)	-	(904)	904	-
Recognition of the financial liabilities in respect of the put option from business combinations	-	-	-	(406)	-	(406)	-	(406)
Total transactions with equity holders at their capacity as equity holders for the period	<u>-</u>	<u>3,011</u>	<u>(214)</u>	<u>(631)</u>	<u>(6,811)</u>	<u>(4,645)</u>	<u>3,377</u>	<u>(1,268)</u>
Balance at 30 June 2018	<u>-</u>	<u>25,215</u>	<u>(4,184)</u>	<u>17,204</u>	<u>256,551</u>	<u>294,786</u>	<u>25,956</u>	<u>320,742</u>

The accompanying notes on pages 37 to 85 form an integral part of this interim financial information.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'Million	RMB'Million (Restated)
Cash flows from operating activities		
Cash generated from operations	63,986	52,870
Income tax paid	(10,182)	(9,605)
Net cash flows generated from operating activities	53,804	43,265
Cash flows from investing activities		
Payments for business combinations, net of cash acquired	(1,717)	(1,875)
Net outflows of cash in respect of deemed disposal of a subsidiary	–	(201)
Purchase of property, plant and equipment, construction in progress and investment properties	(8,347)	(10,348)
Proceeds from disposals of property, plant and equipment	3	6
Purchase of/prepayments for intangible assets	(14,760)	(13,994)
Purchase of/prepayments for land use rights	(55)	(2,212)
Payments for acquisition of investments in associates	(8,814)	(29,279)
Proceeds from disposals of investments in associates	652	421
Payments for acquisition of investments in joint ventures	(99)	(841)
Payments for acquisition of financial assets at fair value through other comprehensive income	(1,610)	(14,024)
Proceeds from disposals of financial assets at fair value through other comprehensive income	–	6,344
Payments for acquisition of financial assets at fair value through profit or loss	(15,341)	(30,758)
Proceeds from disposals of financial assets at fair value through profit or loss	5,817	3,850
Proceeds from disposals of other financial assets	937	–
Payments for loans to investees and others	(3,151)	(1,464)
Loans repayments from investees and others	256	203
Receipt from term deposits with initial terms of over three months	55,639	35,756
Placement of term deposits with initial terms of over three months	(49,758)	(17,305)
Interest received	3,423	2,247
Dividends received	625	578
Net cash flows used in investing activities	(36,300)	(72,896)

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'Million	RMB'Million (Restated)
Cash flows from financing activities		
Proceeds from short-term borrowings	17,175	15,943
Repayments of short-term borrowings	(20,850)	(9,120)
Proceeds from long-term borrowings	11,967	–
Repayments of long-term borrowings	(14,990)	(15)
Net proceeds from issuance of notes payable	40,202	32,547
Repayments of notes payable	(13,465)	(3,798)
Principal elements of lease payments	(1,065)	–
Interest paid	(3,060)	(1,862)
Proceeds from issuance of ordinary shares as a result of exercise of share options	110	336
Shares withheld for share award schemes	(589)	(701)
Proceeds from issuance of additional equity of non-wholly owned subsidiaries	317	2,239
Proceeds from disposals of non-controlling interests in non-wholly owned subsidiaries	–	157
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	(103)	(215)
Dividends paid to the Company's shareholders	(8,315)	(6,776)
Dividends paid to non-controlling interests	(82)	(474)
	7,252	28,261
Net cash flows generated from financing activities	7,252	28,261
Net increase/(decrease) in cash and cash equivalents	24,756	(1,370)
Cash and cash equivalents at beginning of the period	97,814	105,697
Exchange gains on cash and cash equivalents	268	296
Cash and cash equivalents at end of the period	122,838	104,623
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	53,244	44,058
Term deposits and highly liquid investments with initial terms within three months	69,594	60,565
	122,838	104,623

The accompanying notes on pages 37 to 85 form an integral part of this interim financial information.

Notes to the Interim Financial Information

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of Value-added Services (“VAS”), FinTech and Business Services and Online Advertising services.

The condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2019, the consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

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

2 BASIS OF PREPARATION AND PRESENTATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2018 annual report of the Company dated 21 March 2019 (the “2018 Financial Statements”).

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2018 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, other financial assets and liabilities, which are carried at fair values.

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

(a) New and amended standards adopted by the Group

Adoption of IFRS 16

The Group has changed its accounting policies following the adoption of IFRS 16 on 1 January 2019.

The Group leases various buildings, computer equipment and others. Rental contracts are typically made for fixed periods of no longer than 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost calculated using the effective interest method, is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Notes to the Interim Financial Information

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New and amended standards adopted by the Group (continued)

Adoption of IFRS 16 (continued)

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

See Note 4 below for further details on the impact of the change in accounting policy.

(b) New and amended standards issued but not effective

A number of new standards and amendments to standards have not come into effect for the financial year beginning 1 January 2019, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group based on the preliminary assessment made by management.

Notes to the Interim Financial Information

4 CHANGES IN ACCOUNTING POLICY

As indicated in Note 3(a), the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.58%.

	RMB'Million
Operating lease commitments disclosed as at 31 December 2018	12,294
Discounted using the Group's weighted average incremental borrowing rate of 4.58%	10,684
Less: short-term leases recognised on a straight-line basis as expense	(189)
Less: leases contracted at the end of 2018 with leasing period started from 2019	(540)
	<hr/>
Lease liabilities recognised as at 1 January 2019	9,955

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The impact on transition is summarised as below:

	1 January 2019
	RMB'Million
Right-of-use assets	9,688
Lease liabilities	(9,955)
Prepayments, deposits and other assets	(23)
Other payables and accruals	290

Notes to the Interim Financial Information

4 CHANGES IN ACCOUNTING POLICY (continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term within 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

Upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

Since the first quarter of 2019, the Group has reclassified interest paid in cash flow presentation from operating activities to financing activities, which better reflect the nature of business. Comparative figures have been reclassified to confirm with the current period presentation.

5 ESTIMATES

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

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2018 Financial Statements.

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2018 Financial Statements.

There were no significant changes in any material risk management policies during the six months ended 30 June 2019.

During the three and six months ended 30 June 2019, the Group reported exchange losses of RMB225 million and exchange gains of RMB157 million respectively (three and six months ended 30 June 2018: exchange gains of RMB37 million and RMB450 million) (Note 10), within "Finance costs, net" in the consolidated income statement.

(b) Capital risk management

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

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

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(b) Capital risk management (continued)

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

	Unaudited	Audited
	30 June	31 December
	2019	2018
	(RMB in million, unless specified)	
Borrowings (Note 26)	107,729	114,271
Notes payable (Note 27)	92,463	65,018
Total debts	200,192	179,289
Adjusted EBITDA for the twelve months ended 30 June 2019/31 December 2018 (Note)	129,978	118,273
Total debts/Adjusted EBITDA ratio	1.54	1.52

Note:

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

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 30 June 2019				
Financial assets at fair value through profit or loss ("FVPL")	12,990	5,205	94,039	112,234
Financial assets at fair value through other comprehensive income ("FVOCI")	65,536	–	3,532	69,068
Other financial assets	–	901	–	901
Other financial liabilities	–	656	2,597	3,253
As at 31 December 2018				
FVPL	10,875	5,009	81,993	97,877
FVOCI	41,578	–	1,941	43,519
Other financial assets	–	2,032	–	2,032
Other financial liabilities	–	40	4,466	4,506

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is determined with reference to quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments mainly include:

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

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

During the six months ended 30 June 2019, there is no transfer between level 1 and level 2 for recurring fair value measurement. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 instruments for the six months ended 30 June 2019 and 2018:

	Financial assets		Financial liabilities	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Opening balance – IAS 39		77,131		2,154
Adjustment on adoption of IFRS 9		22,976		–
Opening balance – IFRS 9	83,934	100,107	4,466	2,154
Additions	12,042	26,540	–	–
Disposals	(1,391)	(6,329)	(1,193)	–
Transfers	(4,022)	(20,297)	–	–
Changes in fair value recognised in other comprehensive income	–	270	–	–
Changes in fair value recognised in profit or loss*	6,609	8,954	(619)	(548)
Currency translation differences	399	1,224	(57)	12
Closing balance	97,571	110,469	2,597	1,618
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	2,344	5,931	(619)	(548)

Notes to the Interim Financial Information

6 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

Valuation processes inputs and relationships to fair value (Level 3)

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

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, and other financial liabilities. Other financial liabilities mainly include: (i) contingent consideration payable related to business combination of the Group; and (ii) guarantee provided by the Group on certain put arrangements of an associate and put options issued by the Group to certain investors of the associate, at a pre-determined pricing formula. As these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other exposure, etc.

7 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities

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

In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand the Group's revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The new "FinTech and Business Services" segment primarily consists of the financials of: (a) payment, wealth management and other FinTech services, previously classified under the "Others" segment; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative, previously classified under the "Others" segment. The comparative figures have been restated to conform with the new presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

Notes to the Interim Financial Information

7 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The Group has the following reportable segments for the three and six months ended 30 June 2019 and 2018:

- VAS;
- FinTech and Business Services;
- Online Advertising; and
- Others.

Subsequent to the change, the “Others” business segment now consists of the financials of investments in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.

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

There were no material inter-segment sales during the three and six months ended 30 June 2019 and 2018. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

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

Notes to the Interim Financial Information

7 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the three and six months ended 30 June 2019 and 2018 is as follows:

	Unaudited				Total RMB'Million
	Three months ended 30 June 2019				
	VAS	FinTech and Business Services	Online Advertising	Others	
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>48,080</u>	<u>22,888</u>	<u>16,409</u>	<u>1,444</u>	<u>88,821</u>
Gross profit	<u>25,297</u>	<u>5,497</u>	<u>7,977</u>	<u>355</u>	<u>39,126</u>
Depreciation	846	1,585	469	28	2,928
Amortisation	<u>3,580</u>	–	<u>2,896</u>	<u>378</u>	<u>6,854</u>

	Unaudited				Total RMB'Million
	Three months ended 30 June 2018				
	VAS	FinTech and Business Services (Restated)	Online Advertising	Others (Restated)	
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>42,069</u>	<u>16,666</u>	<u>14,110</u>	<u>830</u>	<u>73,675</u>
Gross profit	<u>24,816</u>	<u>4,339</u>	<u>5,272</u>	<u>19</u>	<u>34,446</u>
Depreciation	457	810	294	20	1,581
Amortisation	<u>2,854</u>	–	<u>3,178</u>	<u>15</u>	<u>6,047</u>

Notes to the Interim Financial Information

7 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

	Unaudited				
	Six months ended 30 June 2019				
		FinTech			
	VAS	and Business	Online	Others	Total
RMB'Million	Services	Advertising	RMB'Million	RMB'Million	
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>97,054</u>	<u>44,677</u>	<u>29,786</u>	<u>2,769</u>	<u>174,286</u>
Gross profit	<u>53,490</u>	<u>11,705</u>	<u>13,578</u>	<u>173</u>	<u>78,946</u>
Depreciation	1,577	2,983	953	53	5,566
Amortisation	<u>6,687</u>	–	<u>5,133</u>	<u>719</u>	<u>12,539</u>

	Unaudited				
	Six months ended 30 June 2018				
		FinTech			
	VAS	and Business	Online	Others	Total
RMB'Million	Services	Advertising	RMB'Million	RMB'Million	
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Segment revenues	<u>88,946</u>	<u>31,848</u>	<u>24,799</u>	<u>1,610</u>	<u>147,203</u>
Gross profit	<u>54,473</u>	<u>8,300</u>	<u>8,605</u>	<u>110</u>	<u>71,488</u>
Depreciation	891	1,465	529	40	2,925
Amortisation	<u>5,164</u>	–	<u>6,142</u>	<u>73</u>	<u>11,379</u>

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

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the three and six months ended 30 June 2019 and 2018.

Notes to the Interim Financial Information

7 SEGMENT INFORMATION AND REVENUES (continued)

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 7(a)).

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenue from contracts with customers				
– VAS	48,080	42,069	97,054	88,946
<i>Online games</i>	27,307	25,202	55,820	53,980
<i>Social networks</i>	20,773	16,867	41,234	34,966
– FinTech and Business Services	22,888	16,666	44,677	31,848
– Online Advertising	16,409	14,110	29,786	24,799
<i>Media advertising</i>	4,400	4,730	7,879	8,029
<i>Social and others advertising</i>	12,009	9,380	21,907	16,770
– Others	1,444	830	2,769	1,610
	88,821	73,675	174,286	147,203

Notes to the Interim Financial Information

8 OTHER GAINS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Net fair value gains on FVPL (Note (a))	1,816	2,946	6,999	8,988
Net gains on disposals and deemed disposals of investee companies (Note (b))	2,850	725	6,517	2,297
Impairment provision for investee companies and intangible assets arising from acquisitions (Note (c))	(2,139)	(2,564)	(2,266)	(3,200)
Net fair value gains on other financial instruments	284	339	1,980	513
Subsidies and tax rebates	978	704	1,861	1,928
Dividends income	300	274	542	319
Donations to Tencent Charity Funds	–	–	(700)	(570)
Others	(51)	82	194	(184)
	4,038	2,506	15,127	10,091

Notes to the Interim Financial Information

8 OTHER GAINS, NET (continued)

Note:

- (a) Net fair value gains on FVPL of approximately RMB6,999 million (Note 18) recognised during the six months ended 30 June 2019 mainly comprised the following:
- aggregate fair value gains of RMB1,886 million (six months ended 30 June 2018: RMB1,745 million) arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of redeemable instruments or preferred shares into ordinary shares with board representation upon their respective initial public offerings (“IPO”); and
 - net gains of approximately RMB5,113 million (six months ended 30 June 2018: RMB7,243 million) arising from fair value changes as a result of changes in valuations of FVPL.
- (b) The disposal and deemed disposal gains of approximately RMB6,517 million recognised during the six months ended 30 June 2019 mainly comprised the following:
- net gains of approximately RMB4,011 million (six months ended 30 June 2018: RMB1,185 million) on dilution of the Group’s equity interests in certain associates due to new equity interests being issued by these associates (Note 17). These investee companies are principally engaged in Internet-related business; and
 - aggregate net gains of approximately RMB2,506 million (six months ended 30 June 2018: RMB984 million) on disposals, partial disposals or deemed disposals of various investments of the Group.
- (c) The impairment provision for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Investments in associates and joint ventures (Note 17(iv))	2,139	2,564	2,266	3,196
Others	–	–	–	4
	<u>2,139</u>	<u>2,564</u>	<u>2,266</u>	<u>3,200</u>

Notes to the Interim Financial Information

9 EXPENSES BY NATURE

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Transaction costs (Note (a))	20,210	16,419	38,673	31,302
Employee benefits expenses (Note (b))	12,643	10,363	24,259	19,938
Content costs (excluding amortisation of intangible assets)	11,295	8,647	22,552	16,478
Amortisation of intangible assets (Note (c) and Note 14)	7,081	6,262	12,996	11,803
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	3,991	3,737	8,069	7,148
Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 14 and Note 16)	3,737	1,918	7,143	3,582
Promotion and advertising expenses	3,661	5,176	6,982	9,750
Travelling and entertainment expenses	387	334	721	607

Note:

- (a) Transaction costs primarily consist of bank handling fees, channel and distribution costs.
- (b) During the three and six months ended 30 June 2019, the Group incurred expenses for the purpose of research and development of approximately RMB7,117 million and RMB13,606 million, respectively (three and six months ended 30 June 2018: approximately RMB5,722 million and RMB10,728 million, respectively), which mainly comprised employee benefits expenses of approximately RMB5,786 million and RMB11,215 million, respectively (three and six months ended 30 June 2018: approximately RMB4,697 million and RMB9,090 million respectively).

During the three and six months ended 30 June 2019, employee benefits expenses included the share-based compensation expenses of approximately RMB2,453 million and RMB4,486 million, respectively (three and six months ended 30 June 2018: approximately RMB1,798 million and RMB3,430 million, respectively).

No significant development expenses had been capitalised for the three and six months ended 30 June 2019 and 2018.

- (c) Included the amortisation charges of intangible assets mainly in respect of media contents and game licences.

During the three and six months ended 30 June 2019, amortisation of intangible assets included the amortisation of intangible assets resulting from acquisitions of approximately RMB118 million and RMB232 million, respectively (three and six months ended 30 June 2018: approximately RMB99 million and RMB199 million, respectively).

Notes to the Interim Financial Information

10 FINANCE COSTS, NET

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Interest and related expenses	1,757	1,188	3,256	2,255
Exchange losses/(gains)	225	(37)	(157)	(450)
	<u>1,982</u>	<u>1,151</u>	<u>3,099</u>	<u>1,805</u>

Interest and related expenses mainly arose from the borrowings, notes payable and lease liabilities as disclosed in Note 26, Note 27 and Note 16(b), respectively.

11 TAXATION

(a) Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and six months ended 30 June 2019 and 2018.

- (ii) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit for the three and six months ended 30 June 2019 and 2018.

Notes to the Interim Financial Information

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the Mainland China for the three and six months ended 30 June 2019 and 2018. The general PRC CIT rate is 25% for the three and six months ended 30 June 2019 and 2018.

Certain subsidiaries of the Group in the Mainland China were approved as High and New Technology Enterprises, and accordingly, they were subject to a preferential corporate income tax rate of 15% for the three and six months ended 30 June 2019 and 2018. Moreover, according to announcement and circular issued by relevant government authorities, certain subsidiaries that qualified as national key software enterprises were subject to a preferential corporate income tax rate of 10%.

In addition, according to relevant tax circulars issued by the tax authorities, certain subsidiaries of the Company are entitled to other tax concessions, mainly including the preferential policy of “2-year exemption and 3-year half rate concession” and the preferential tax rate of 15% applicable for some subsidiaries located in certain areas of the Mainland China upon fulfillment of certain requirements of the respective local governments.

(iv) Corporate income tax in other jurisdictions

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the three and six months ended 30 June 2019 and 2018 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(v) Withholding tax

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

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

Notes to the Interim Financial Information

11 TAXATION (continued)

(a) Income tax expense (continued)

The income tax expense of the Group for the three and six months ended 30 June 2019 and 2018 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current income tax	4,354	4,049	8,796	8,538
Deferred income tax (Note 22)	(1,129)	(447)	(759)	810
	<u>3,225</u>	<u>3,602</u>	<u>8,037</u>	<u>9,348</u>

(b) Value-added tax and other taxes

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

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

Note:

Effective from 1 May 2018, the 17% and 11% VAT rates applicable to certain goods and services have been reduced to 16% and 10%, respectively. Effective from 1 April 2019, the 16% and 10% VAT rates applicable to certain goods and services have been reduced to 13% and 9%, respectively.

Notes to the Interim Financial Information

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share (“EPS”) is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	<u>24,136</u>	<u>17,867</u>	<u>51,346</u>	<u>41,157</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,464</u>	<u>9,438</u>	<u>9,461</u>	<u>9,434</u>
Basic EPS (RMB per share)	<u>2.550</u>	<u>1.893</u>	<u>5.427</u>	<u>4.363</u>

(b) Diluted

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

Notes to the Interim Financial Information

12 EARNINGS PER SHARE (continued)

(b) Diluted (continued)

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three and six months ended 30 June 2019 and 2018, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted EPS.

	Unaudited		Unaudited	
	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	<u>24,136</u>	<u>17,867</u>	<u>51,346</u>	<u>41,157</u>
Weighted average number of ordinary shares in issue (million shares)	9,464	9,438	9,461	9,434
Adjustments for share options and awarded shares (million shares)	<u>113</u>	<u>125</u>	<u>114</u>	<u>130</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,577</u>	<u>9,563</u>	<u>9,575</u>	<u>9,564</u>
Diluted EPS (RMB per share)	<u>2.520</u>	<u>1.868</u>	<u>5.362</u>	<u>4.303</u>

13 DIVIDENDS

A final dividend in respect of the year ended 31 December 2018 of HKD1.00 per share (2017: HKD0.88 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2019 and approved by the shareholders at the 2019 AGM. Such dividend amounting to RMB8,305 million (final dividend for 2017: RMB6,776 million) was paid during three months ended 30 June 2019.

A special dividend of approximately HKD250 million (equivalent to approximately RMB219 million) was declared in December 2018 to the shareholders of the Company by way of a distribution in respect of the separate listing of TME, a non-wholly owned subsidiary of the Group on the New York Stock Exchange. Such dividend was settled by the Group with cash and TME shares in February 2019.

The Board did not declare any interim dividend for the six months ended 30 June 2019 and 2018.

Notes to the Interim Financial Information

14 PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

	Unaudited			
	Property, plant and equipment RMB'Million	Construction in progress RMB'Million	Investment properties RMB'Million	Intangible assets RMB'Million
Net book amount at 1 January 2019	35,091	4,879	725	56,650
Business combinations	2	–	–	346
Additions	7,366	1,100	–	12,676
Transfers	3,461	(3,660)	199	–
Disposals	(12)	–	–	(461)
Depreciation/amortisation	(5,778)	–	(15)	(12,996)
Currency translation differences	27	(1)	–	41
Net book amount at 30 June 2019	40,157	2,318	909	56,256
Net book amount at 1 January 2018	23,597	3,163	800	40,266
Business combinations	2	–	–	2,769
Additions	10,162	1,157	–	16,039
Transfers	606	(577)	(29)	–
Disposals	(10)	–	–	(607)
Depreciation/amortisation	(3,567)	–	(15)	(11,803)
Impairment	–	–	–	(4)
Currency translation differences	24	(3)	–	69
Net book amount at 30 June 2018	30,814	3,740	756	46,729

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

There was no indication of impairment for property, plant and equipment, construction in progress, investment properties and intangible assets during the three and six months ended 30 June 2019.

Notes to the Interim Financial Information

15 LAND USE RIGHTS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'Million	RMB'Million
Net book amount at 1 January 2019	7,106	5,111
Additions	153	2,011
Amortisation	(79)	(276)
Net book amount at 30 June 2019	7,180	6,846

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 36 to 50 years.

16 LEASES

(a) Amounts recognised in the consolidated statement of financial position

Except recognition of lease liabilities, the carrying amounts of right-of-use assets (excluding land use rights disclosed in Note 15), are as below:

	Buildings	Computer equipment	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Net book amount at 1 January 2019 (Note 4)	5,505	4,177	6	9,688
Net book amount at 30 June 2019	5,879	4,918	19	10,816

Additions to the right-of-use assets (excluding land use rights disclosed in Note 15), during the six months ended 30 June 2019 were RMB2,525 million.

Notes to the Interim Financial Information

16 LEASES (continued)

(b) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Unaudited	
	Three months ended 30 June 2019 RMB'Million	Six months ended 30 June 2019 RMB'Million
Depreciation charge of right-of-use assets		
Buildings	383	721
Computer equipment	365	627
Others	–	2
	<u>748</u>	<u>1,350</u>
Interest expense (included in finance costs, net)	149	255
Expense relating to short-term leases and variable leases payments not included in lease liabilities (included in cost of revenues and expenses)	1,095	2,082

Some computer equipment contain variable lease payments. Variable payments are used for a variety of reasons, including managing cash outflows and minimising the fixed costs. Variable lease payments that depend on usage of bandwidth are recognised in profit or loss in the period in which the condition that triggers those payments occur. Variable lease payments relating to computer equipment leases during the six months ended 30 June 2019 were considered to be insignificant.

The total cash outflow in financing activities for leases in during six months ended 30 June 2019 was RMB1,266 million, including principal elements of lease payments of approximately RMB1,065 million and related interest paid of approximately RMB201 million, respectively.

Notes to the Interim Financial Information

17 INVESTMENTS IN ASSOCIATES

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities (Note)	136,532	130,633
– Unlisted entities	90,655	88,582
	<u>227,187</u>	<u>219,215</u>

Note:

As at 30 June 2019, the fair value of the investments in associates which are listed entities was RMB252,670 million (31 December 2018: RMB187,339 million).

Movement of investments in associates is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'Million	RMB'Million
At beginning of period	219,215	113,779
Additions (Note (i))	8,459	31,976
Transfers (Note (ii))	823	5,020
Deemed disposal gains (Note 8(b))	4,011	1,185
Share of (loss)/profit of associates	(538)	1,127
Share of other comprehensive loss of associates	(22)	(26)
Share of other changes in net assets of associates	881	577
Dividends	(100)	(226)
Disposals (Note (iii))	(3,549)	(661)
Impairment provision (Note (iv))	(2,266)	(959)
Currency translation differences	273	1,010
	<u>227,187</u>	<u>152,802</u>
At end of period	<u>227,187</u>	<u>152,802</u>

Notes to the Interim Financial Information

17 INVESTMENTS IN ASSOCIATES (continued)

Note:

- (i) The Group acquired certain new associates and made additional investments in existing associates with an aggregate amount of approximately RMB8,459 million during the six months ended 30 June 2019. These associates are principally engaged in transportation network, retail and other Internet-related business.
- (ii) During the six months ended 30 June 2019, transfers comprised associates achieved in stages of an aggregate amount of approximately RMB5,309 million, which included investments in associates of approximately RMB3,202 million transferred from FVPL due to the conversion of redeemable instruments or preferred shares into ordinary shares upon their IPOs. In addition, investments in associates of an aggregate amount of approximately RMB4,486 million were transferred to financial instruments as a result of changes in nature of these investments.
- (iii) During the six months ended 30 June 2019, an A share listed company completed its substantial assets reorganisation to acquire the entire equity interest in an associate held by the Group through share swap. Upon completion of the aforesaid reorganisation, the Group received approximately 5% of ordinary shares issued by the listed company valued at approximately RMB3,526 million. Since the Group has no board seat in the listed company and the investments in ordinary shares is not held for trading, management designated this investment as FVOCI.
- (iv) During the six months ended 30 June 2019, the Group made an aggregate impairment provision of approximately RMB2,266 million (six months ended 30 June 2018: RMB959 million) against the carrying amounts of certain investments in associates based on the respective assessed recoverable amounts.

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and associates with shareholding over 50%, with total carrying amounts of RMB146,644 million and RMB28,626 million as at 30 June 2019 (31 December 2018: RMB149,175 million and RMB24,948 million). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.

Notes to the Interim Financial Information

17 INVESTMENTS IN ASSOCIATES (continued)

Transactions with associates

During the three and six months ended 30 June 2019 and 2018, the Group had undertaken transactions relating to provision of FinTech services, online traffic, online advertising and other online services to certain associates, under but not limited to certain co-operation arrangements. The revenues recorded by the Group from the aforesaid co-operation arrangements during the three and six months ended 30 June 2019 and 2018 were not considered to be material when comparing to the total revenue of the Group.

In May 2019, the Group entered into a series of strategic cooperation agreements with an associate for a period of three years. According to the strategic cooperation agreements, the Group will continue to offer the associate access points on the Group's platforms, including but not limited to Weixin. The consideration for such access points is accounted for as deferred revenue of the Group and recognised as revenue over the next three years. In addition to these access points, the Group also intends to cooperate with the associate in a variety of areas including communications, advertising, membership services and others. Besides, the Group agreed to acquire certain additional equity interests of the associate at prevailing market prices at certain pre-determined dates during the aforesaid three-year period at total cash consideration of USD253 million.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Included in non-current assets:		
Investments in listed entities	10,806	9,123
Investments in unlisted entities	90,056	78,234
Others	6,713	4,345
	107,575	91,702
Included in current assets:		
Treasury investments and others	4,659	6,175
	112,234	97,877

Notes to the Interim Financial Information

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement of FVPL is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'Million	RMB'Million
At beginning of period	97,877	–
Adjustment on adoption of IFRS 9	–	95,497
Additions (Note (i))	16,801	33,444
Transfers (Note (ii) and Note 17(ii))	(2,952)	(5,205)
Changes in fair value (Note 8(a))	6,999	8,988
Disposals	(6,953)	(7,434)
Currency translation differences	462	2,147
	<hr/>	<hr/>
At end of period	112,234	127,437
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (i) During the six months ended 30 June 2019, the Group made a number of new investments and additional investments with an aggregate amount of approximately RMB16,801 million in listed and unlisted entities mainly operating in the United States, the PRC and other Asian countries. These companies are principally engaged in social networks, Internet platform, technology and other Internet-related business.
- (ii) During the six months ended 30 June 2019, except as described above in Note 17(ii), transfers also comprised an equity investment designated as FVOCI due to the conversion of the redeemable instruments into ordinary shares amounting to RMB1,395 million upon its IPO.

Notes to the Interim Financial Information

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Equity investments in listed entities		
– United States	52,528	33,120
– Mainland China	9,561	5,365
– France	3,009	3,093
– Hong Kong	438	–
	65,536	41,578
Equity investments in unlisted entities	3,532	1,941
	69,068	43,519

Movement of FVOCI is analysed as follows:

	Unaudited Six months ended 30 June 2019 RMB'Million	2018 RMB'Million
At beginning of period	43,519	–
Adjustment on adoption of IFRS 9	–	58,515
Additions (Note (i) and Note 17(iii))	6,001	14,044
Transfers	2,129	–
Changes in fair value	16,920	438
Disposals	–	(6,341)
Currency translation differences	499	300
At end of period	69,068	66,956

Notes to the Interim Financial Information

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Note:

- (i) During the six months ended 30 June 2019, except as described above in Note 17(iii), the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB2,475 million, in the companies which are principally engaged in Internet-related business.

20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	15,698	13,652
Loans to investees and investees' shareholders (Note (a))	6,535	3,864
Running royalty fees for online games (Note (b))	99	99
Prepayments for capital investments in investees	485	619
Others	3,674	3,297
	26,491	21,531
Included in current assets:		
Prepayments and prepaid expenses	9,174	7,532
Running royalty fees for online games (Note(b))	7,854	5,230
Interest receivables	1,037	1,697
Refundable value-added tax	822	915
Loans to investees and investees' shareholders (Note (a))	443	225
Lease deposits and other deposits	859	693
Dividend and other investment-related receivables	1,157	338
Others	2,158	1,863
	23,504	18,493
	49,995	40,024

Notes to the Interim Financial Information

20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS (continued)

Note:

- (a) As at 30 June 2019, the balance of loans to investees and investees' shareholders were mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and were interest-bearing at rates of not higher than 12.0% per annum (31 December 2018: not higher than 12.0% per annum).
- (b) Running royalty fees for online games comprised prepaid royalty fees, unamortised running royalty fees and deferred service fees collected from third party platforms.

As at 30 June 2019, the carrying amounts of deposits and other assets (excluding prepayments and refundable value-added tax) approximated their fair values. Deposits and other assets were neither past due nor impaired.

21 OTHER FINANCIAL ASSETS

Other financial assets were measured at their fair values.

Included in non-current assets:

As at 30 June 2019, the Group's non-current other financial assets comprised interest rate swap contracts of RMB187 million for interest rate hedging purpose, which swap the floating interest rates into fixed interest rates. The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD11,066 million and HKD2,500 million (equivalent to approximately RMB78,275 million) (31 December 2018: USD11,311 million (equivalent to approximately RMB77,630 million)). These interest rate swap contracts were qualified for hedge accounting.

Included in current assets:

As at 30 June 2019, the Group's current other financial assets mainly comprised a share swap transaction of RMB473 million (31 December 2018: Nil) entered with banks, and call options rights of RMB241 million (31 December 2018: RMB312 million) held by the Group to acquire additional equity interests in an investee company of the Group.

Notes to the Interim Financial Information

22 DEFERRED INCOME TAXES

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

	Deferred income tax assets RMB'Million	Unaudited Deferred income tax liabilities RMB'Million	Deferred income tax, net RMB'Million
At 1 January 2019	15,755	(10,964)	4,791
Credited/(charged) to consolidated income statement (Note 11)	2,428	(1,669)	759
Withholding taxes paid	–	887	887
Credited/(charged) to consolidated statement of changes in equity	39	(112)	(73)
Business combinations	–	(28)	(28)
Currency translation differences	4	(4)	–
Set-off of deferred tax assets/liabilities pursuant to set-off provisions	<u>(1,343)</u>	<u>1,343</u>	<u>–</u>
At 30 June 2019	<u>16,883</u>	<u>(10,547)</u>	<u>6,336</u>
At 1 January 2018	9,793	(5,975)	3,818
Credited/(charged) to consolidated income statement (Note 11)	1,275	(2,085)	(810)
Withholding taxes paid	–	161	161
Credited/(charged) to consolidated statement of changes in equity	117	(20)	97
Business combinations	–	(128)	(128)
Other additions	–	(986)	(986)
Currency translation differences	(13)	(64)	(77)
At 30 June 2018	<u>11,172</u>	<u>(9,097)</u>	<u>2,075</u>

Note:

Deferred tax assets and liabilities have been set off when there is a legally enforceable right to set off current tax assets and liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Notes to the Interim Financial Information

23 ACCOUNTS RECEIVABLE

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

	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
0 ~ 30 days	11,807	11,200
31 ~ 60 days	10,554	7,695
61 ~ 90 days	4,561	4,201
Over 90 days	5,277	5,331
	<u>32,199</u>	<u>28,427</u>

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

Receivable balances as at 30 June 2019 and 31 December 2018 mainly represented amounts due from online advertising customers and agencies, FinTech and cloud customers, third party platform providers and content production related customers.

Some online advertising customers and agencies are usually granted with a credit period within 90 days immediately following the month-end in which the relevant obligation under the relevant contracted advertising orders are delivered. Third party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

As at 30 June 2019, loss allowance made against the gross amounts of accounts receivable were not significant.

As at 30 June 2019, the carrying amounts of the accounts receivable approximated their fair values.

Notes to the Interim Financial Information

24 SHARE CAPITAL

As at 30 June 2019 and 31 December 2018, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

No. of ordinary shares, issued and fully paid	Unaudited	
	Six months ended 30 June	
	2019	2018
At beginning of period	9,520,307,091	9,499,056,887
Issuance of shares under share option schemes	663,420	5,670,239
At end of period	9,520,970,511	9,504,727,126

As at 30 June 2019, the total number of issued ordinary shares of the Company included 55,836,224 shares (31 December 2018: 63,275,620 shares) held under the Share Award Schemes.

25 SHARE-BASED PAYMENTS

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes.

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

Notes to the Interim Financial Information

25 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2019	HKD185.25	51,499,010	-	-	HKD374.52	36,277,234	87,776,244
Granted	-	-	-	-	HKD376.00	23,696,575	23,696,575
Exercised	HKD168.17	(509,236)	-	-	HKD272.36	(154,184)	(663,420)
Lapsed/forfeited	HKD148.90	(1,225)	-	-	HKD325.28	(158,662)	(159,887)
At 30 June 2019	HKD185.42	<u>50,988,549</u>	-	-	HKD375.50	<u>59,660,963</u>	<u>110,649,512</u>
Exercisable as at 30 June 2019	HKD172.04	<u>33,919,512</u>	-	-	HKD382.40	<u>7,793,394</u>	<u>41,712,906</u>
At 1 January 2018	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Granted	-	-	-	-	HKD410.21	22,491,840	22,491,840
Exercised	HKD106.48	(3,170,239)	HKD31.70	(2,500,000)	-	-	(5,670,239)
Lapsed/forfeited	HKD131.47	(37,139)	-	-	HKD272.36	(91,490)	(128,629)
At 30 June 2018	HKD184.38	<u>52,302,870</u>	-	-	HKD371.03	<u>31,556,210</u>	<u>83,859,080</u>
Exercisable as at 30 June 2018	HKD160.05	<u>22,212,605</u>	-	-	-	-	<u>22,212,605</u>

During the six months ended 30 June 2019, 3,506,580 options were granted to one director of the Company (six months ended 30 June 2018: 3,215,800 options were granted to one director of the Company).

As a result of the options exercised during the six months ended 30 June 2019, 663,420 ordinary shares (six months ended 30 June 2018: 5,670,239 ordinary shares) were issued by the Company (Note 24). The weighted average price of the shares at the time these options were exercised was HKD338.80 per share (equivalent to approximately RMB295.10 per share) (six months ended 30 June 2018: HKD412.47 per share (equivalent to approximately RMB332.56 per share)).

Notes to the Interim Financial Information

25 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2019 and 31 December 2018 are as follows:

Expiry Date	Range of exercise price	No. of share options	
		30 June 2019	31 December 2018
7 years commencing from the date of grant of options	HKD49.76	7,875	22,875
(Post-IPO Option Scheme II and	HKD112.30~HKD174.86	23,213,874	23,504,535
Post-IPO Option Scheme IV)	HKD225.44~HKD272.36	36,031,803	36,475,949
	HKD354.00~HKD386.60	28,814,555	5,191,480
	HKD403.16~HKD444.20	22,581,405	22,581,405
		<u>110,649,512</u>	<u>87,776,244</u>

The outstanding share options as of 30 June 2019 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

Notes to the Interim Financial Information

25 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the dividend adjusted Black-Scholes option pricing model and “Enhanced FAS 123” binomial model (“Valuation Models”) to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the six months ended 30 June 2019 was HKD126.05 per share (equivalent to approximately RMB107.68 per share) (six months ended 30 June 2018: HKD128.32 per share (equivalent to approximately RMB103.22 per share)).

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
Weighted average share price at the grant date	HKD376.00	HKD409.32
Risk free rate	2.07%	1.77%~2.27%
Dividend yield	0.23%	0.24%~0.25%
Expected volatility (Note)	30.00%	30.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

Notes to the Interim Financial Information

25 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted two share award schemes (the “Share Award Schemes”) as of 30 June 2019, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the six months ended 30 June 2019 and 2018 are as follows:

	Number of awarded shares	
	Six months ended 30 June	
	2019	2018
At beginning of period	50,247,895	63,636,254
Granted	28,190,873	3,766,965
Lapsed/forfeited	(1,359,202)	(1,181,802)
Vested and transferred	(8,726,893)	(7,806,084)
At end of period	68,352,673	58,415,333
Vested but not transferred as at the end of period	34,630	89,313

During the six months ended 30 June 2019, 53,500 awarded shares were granted to four independent non-executive directors of the Company (six months ended 30 June 2018: 39,500 awarded shares were granted to four independent non-executive directors of the Company).

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

The weighted average fair value of awarded shares granted during the six months ended 30 June 2019 was HKD370.77 per share (equivalent to approximately RMB317.33 per share) (six months ended 30 June 2018: HKD410.33 per share (equivalent to approximately RMB332.52 per share)).

The outstanding awarded shares as of 30 June 2019 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to five years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

Notes to the Interim Financial Information

25 SHARE-BASED PAYMENTS (continued)

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the six months ended 30 June 2019 and 2018 were insignificant to the Group.

(d) Share option and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the respective board of directors of these subsidiaries at their sole discretion. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries (the "Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 30 June 2019, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 95%~97% (31 December 2018: 88%~97%).

Notes to the Interim Financial Information

26 BORROWINGS

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	65,832	70,938
Non-current portion of long-term EUR bank borrowings, unsecured (Note (a))	1,172	–
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	10,578	11,189
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	4,456	5,310
	82,038	87,437
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	–	16,403
HKD bank borrowings, unsecured (Note (b))	16,294	3,368
RMB bank borrowings, unsecured (Note (b))	503	628
Current portion of long-term USD bank borrowings, unsecured (Note (a))	2,543	5,628
Current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	5,472	332
– secured (Note (a))	–	475
Current portion of long-term HKD bank borrowings, unsecured (Note (a))	879	–
	25,691	26,834
	107,729	114,271

Notes to the Interim Financial Information

26 BORROWINGS (continued)

Note:

(a) The aggregate principal amounts of long-term bank borrowings and applicable interest rates are as follows:

	Unaudited 30 June 2019		Audited 31 December 2018	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	USD9,946	LIBOR + 0.70% ~ 1.27% or a fixed interest rate of 1.875%	USD11,156	LIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875%
EUR bank borrowings	EUR150	0.520%	–	–
HKD bank borrowings	HKD6,070	HIBOR + 0.70% ~ 0.80%	HKD6,070	HIBOR + 0.70% ~ 0.85%
RMB bank borrowings	RMB16,050	4.18% ~ 5.70%	RMB11,996	4.18% ~ 9.00%

The long-term bank borrowings were repayable as follows:

	Unaudited 30 June 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Within 1 year	8,894	6,435
Between 1 and 2 years	21,152	18,640
Between 2 and 5 years	60,886	68,797
	90,932	93,872

Notes to the Interim Financial Information

26 BORROWINGS (continued)

Note: (continued)

(b) The aggregate principal amounts of short-term bank borrowings and applicable interest rates are as follows:

	Unaudited 30 June 2019		Audited 31 December 2018	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	–	–	USD2,390	LIBOR + 0.50% ~ 0.55%
HKD bank borrowings	HKD18,540	HIBOR + 0.45% ~ 0.55%	HKD3,850	HIBOR + 0.50% ~ 0.55%
RMB bank borrowings	RMB503	3.92% ~ 5.44%	RMB628	5.22% ~ 5.44%

During the six months ended 30 June 2019, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 30 June 2019 have been detailed in Note 21.

As at 30 June 2019, the carrying amounts of borrowings were approximate to their fair values.

The Group has complied with the financial covenants of its borrowing facilities for the three and six months ended 30 June 2019 and 2018.

Notes to the Interim Financial Information

27 NOTES PAYABLE

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	82,096	48,501
Non-current portion of long-term HKD notes payable	–	2,797
	82,096	51,298
Included in current liabilities:		
Current portion of long-term USD notes payable	7,556	13,720
Current portion of long-term HKD notes payable	2,811	–
	10,367	13,720
	92,463	65,018

The aggregate principal amounts of USD notes payable and HKD notes payable were USD13,100 million (31 December 2018: USD9,100 million) and HKD3,200 million (31 December 2018: HKD3,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (31 December 2018: 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605%) per annum.

The notes payable were repayable as follows:

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Within 1 year	10,367	13,720
Between 1 and 2 years	–	10,335
Between 2 and 5 years	23,976	10,258
More than 5 years	58,120	30,705
	92,463	65,018

Notes to the Interim Financial Information

27 NOTES PAYABLE (continued)

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

On 1 April 2019, the Company updated the Global Medium Term Note Programme (the “Programme”) to include, among other things, the Company’s recent corporate and financial information and increased the limit of aggregate principal amount of the notes under the Programme from USD10 billion to USD20 billion (or its equivalent in other currencies).

On 11 April 2019, the Company issued five tranches of senior notes under the Programme with an aggregate principal amount of USD6 billion as set out below.

	Amount (USD'Million)	Interest Rate (per annum)	Due
2024 Notes	1,250	3.280%	2024
2024 Floating Rate Notes	750	3-month USD LIBOR + 0.910%	2024
2026 Notes	500	3.575%	2026
2029 Notes	3,000	3.975%	2029
2049 Notes	500	4.525%	2049
	<u>6,000</u>		

During the six months ended 30 June 2019, the notes payable with an aggregate principal amount of USD2,000 million issued in April 2014 reached their maturity and were repaid in full by the Group.

As at 30 June 2019, the fair value of the notes payable amounted to RMB95,240 million (31 December 2018: RMB62,820 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

Notes to the Interim Financial Information

28 LONG-TERM PAYABLES

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Payables relating to media contents and running royalty fee for online games	1,363	1,415
Purchase consideration payables for investee companies	297	2,018
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	409	393
Others	804	971
	<u>2,873</u>	<u>4,797</u>

29 ACCOUNTS PAYABLE

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

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
0 ~ 30 days	47,329	56,506
31 ~ 60 days	7,012	6,264
61 ~ 90 days	1,077	1,557
Over 90 days	12,346	9,408
	<u>67,764</u>	<u>73,735</u>

Notes to the Interim Financial Information

30 OTHER PAYABLES AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Staff costs and welfare accruals	12,406	15,929
Selling and marketing expense accruals	4,666	3,038
General and administrative expenses accruals	1,627	1,650
Purchase consideration payables for investee companies	2,568	1,277
Purchase of construction related costs	1,162	1,065
Interest payable	1,263	951
Prepayments received from customers and others	282	542
Liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	661	759
Others (Note)	7,679	8,101
	32,314	33,312

Note:

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

31 DEFERRED REVENUE

Deferred revenue mainly comprises contract liabilities in relation to the unamortised pre-paid tokens or cards, virtual items, prepaid advertising and cloud services fees, Internet traffic and other support to be offered under strategic cooperation agreements to certain investee companies in the future periods measured at their fair values on the inception dates (Note 17), and customer loyalty incentives offered to the customers.

32 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 30 June 2019.

Notes to the Interim Financial Information

33 COMMITMENTS

(a) Capital commitments

Capital commitments as at 30 June 2019 and 31 December 2018 are analysed as follows:

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	2,502	2,219
Purchase of other property, plant and equipment	393	357
Capital investments in investees	12,378	8,763
	15,273	11,339

(b) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	10,916	7,260
Later than one year and not later than five years	8,194	8,332
Later than five years	2,753	2,279
	21,863	17,871

34 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 17 (Transactions with associates), Note 20 (Loans to investees and investees' shareholders), and Note 25 (Share-based payments) to this Interim Financial Information, the Group had no other material transactions with related parties for the six months ended 30 June 2019, and no other material related parties' balances as at 30 June 2019.

Other Information

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2019, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of shares/ underlying shares held	Approximate % of shareholding
Ma Huateng	Corporate (Note 1)	819,507,500	8.61%
Lau Chi Ping Martin	Personal *	52,690,380 (Note 2)	0.55%
Li Dong Sheng	Personal *	61,300 (Note 3)	0.0006%
Iain Ferguson Bruce	Personal *	387,500 (Note 4)	0.004%
Ian Charles Stone	Personal * Family +	150,000 240,000	0.004%
		390,000 (Note 5)	
Yang Siu Shun	Personal *	46,474 (Note 6)	0.0005%

Other Information

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng, holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.
 2. The interest comprises 31,968,000 shares and 20,722,380 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV. Details of the share options granted to this director are set out below under "Share Option Schemes".
 3. The interest comprises 40,425 shares and 20,875 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out below under "Share Award Schemes".
 4. The interest comprises 352,000 shares and 35,500 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out below under "Share Award Schemes".
 5. The interest comprises 348,250 shares and 41,750 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out below under "Share Award Schemes".
 6. The interest comprises 13,236 shares and 33,238 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out below under "Share Award Schemes".
- * Interests of beneficial owner
- + Interests of spouse or child under 18 as beneficial owner

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

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

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2019.

Other Information

SHARE OPTION SCHEMES

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV. The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019 respectively. In respect of the Post-IPO Option Scheme IV, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. Movements of the options under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV during the six months ended 30 June 2019 are detailed in Note 25 to the Interim Financial Information as included in this interim report.

As at 30 June 2019, there were a total of 20,722,380 outstanding share options granted to a director of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options			As at 30 June 2019	Exercise price HKD	Exercise period
		As at 1 January 2019	Granted during the period	Exercised during the period			
Lau Chi Ping Martin	25 March 2014	5,000,000	–	–	5,000,000	114.52	25 March 2015 to 24 March 2021 (Note 1)
	21 March 2016	3,750,000	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 2)
	24 March 2017	5,250,000	–	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 2)
	9 April 2018	3,215,800	–	–	3,215,800	410.00	9 April 2019 to 8 April 2025 (Note 2)
	4 April 2019	–	3,506,580 (Note 3)	–	3,506,580	376.00	4 April 2020 to 3 April 2026 (Note 2)
	Total:	<u>17,215,800</u>	<u>3,506,580</u>	<u>–</u>	<u>20,722,380</u>		

Other Information

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
3. The closing price immediately before the date on which the options were granted on 4 April 2019 was HKD378.
4. No options were cancelled or lapsed during the period.

Other Information

Details of movements of share options granted to employees of the Group (apart from director(s) of the Company) during the six months ended 30 June 2019 are as follows:

Date of grant	Number of share options					As at 30 June 2019	Exercise price HKD	Exercise period
	As at 1 January 2019	Granted during the period	Exercised during the period (Note 10)	Lapsed/ forfeited during the period	As at 30 June 2019			
13 Sep 2012	22,875	–	15,000	–	7,875	49.76	13 Sep 2013 to 12 Sep 2019 (Note 1)	
25 Mar 2014	2,542,500	–	–	–	2,542,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 2)	
25 Mar 2014	3,145,000	–	125,000	–	3,020,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 1)	
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 2)	
10 Jul 2014	642,339	–	63,325	–	579,014	124.30	10 Jul 2015 to 9 Jul 2021 (Note 3)	
12 Dec 2014	40,350	–	–	–	40,350	116.40	12 Dec 2016 to 11 Dec 2021 (Note 4)	
2 Apr 2015	525,000	–	–	–	525,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 3)	
10 Jul 2015	555,029	–	44,150	1,225	509,654	148.90	10 Jul 2016 to 9 Jul 2022 (Note 3)	
21 Mar 2016	6,125,000	–	–	–	6,125,000	158.10	21 Mar 2017 to 20 Mar 2023 (Note 3)	
6 Jul 2016	1,116,817	–	56,961	–	1,059,856	174.86	6 Jul 2017 to 5 Jul 2023 (Note 3)	
24 Mar 2017	1,292,850	–	29,800	–	1,263,050	225.44	24 Mar 2018 to 23 Mar 2024 (Note 5)	
24 Mar 2017	21,428,750	–	175,000	–	21,253,750	225.44	24 Mar 2018 to 23 Mar 2024 (Note 3)	
10 Jul 2017	13,405	–	–	–	13,405	272.36	10 Jul 2018 to 9 Jul 2024 (Note 2)	
10 Jul 2017	8,458,149	–	154,184	77,707	8,226,258	272.36	10 Jul 2018 to 9 Jul 2024 (Note 3)	
10 Jul 2017	25,340	–	–	–	25,340	272.36	10 Jul 2019 to 9 Jul 2024 (Note 4)	
10 Jul 2017	7,455	–	–	7,455	–	272.36	10 Jul 2020 to 9 Jul 2024 (Note 6)	
23 Nov 2017	89,565	–	–	–	89,565	419.60	23 Nov 2018 to 22 Nov 2024 (Note 2)	
16 Jan 2018	155,050	–	–	–	155,050	444.20	16 Jan 2019 to 15 Jan 2025 (Note 2)	
9 Apr 2018	2,082,920	–	–	–	2,082,920	410.00	9 Apr 2019 to 8 Apr 2025 (Note 5)	
9 Apr 2018	235,515	–	–	–	235,515	410.00	9 Apr 2019 to 8 Apr 2025 (Note 2)	
9 Apr 2018	16,692,585	–	–	–	16,692,585	410.00	9 Apr 2019 to 8 Apr 2025 (Note 3)	
24 May 2018	26,390	–	–	–	26,390	407.00	24 May 2019 to 23 May 2025 (Note 2)	
22 Jun 2018	13,055	–	–	–	13,055	403.16	22 Jun 2019 to 21 Jun 2025 (Note 5)	
22 Jun 2018	70,525	–	–	–	70,525	403.16	22 Jun 2019 to 21 Jun 2025 (Note 2)	
6 Jul 2018	5,128,760	–	–	63,840	5,064,920	386.60	6 Jul 2019 to 5 Jul 2025 (Note 3)	
6 Jul 2018	8,050	–	–	–	8,050	386.60	6 Jul 2020 to 5 Jul 2025 (Note 4)	

Other Information

Date of grant	Number of share options					Exercise price HKD	Exercise period
	As at 1 January 2019	Granted during the period	Exercised during the period (Note 10)	Lapsed/ forfeited during the period	As at 30 June 2019		
6 Jul 2018	34,230	–	–	9,660	24,570	386.60	6 Jul 2021 to 5 Jul 2025 (Note 6)
24 Aug 2018	17,780	–	–	–	17,780	354.00	24 Aug 2019 to 23 Aug 2025 (Note 2)
24 Aug 2018	2,660	–	–	–	2,660	354.00	6 Jul 2019 to 5 Jul 2025 (Note 7)
4 Apr 2019	–	406,875	–	–	406,875	376.00	4 Apr 2020 to 3 Apr 2026 (Notes 5 and 9)
4 Apr 2019	–	2,283,120	–	–	2,283,120	376.00	4 Apr 2020 to 3 Apr 2026 (Notes 3 and 9)
4 Apr 2019	–	17,500,000	–	–	17,500,000	376.00	4 Apr 2024 to 3 Apr 2026 (Notes 8 and 9)
Total:	<u>70,560,444</u>	<u>20,189,995</u>	<u>663,420</u>	<u>159,887</u>	<u>89,927,132</u>		

Note:

- For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 1 year after the grant date, and each 33.33% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 2 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options can be exercised 1 year after the grant date, and the remaining 50% of the total options will become exercisable in the subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 3 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, 100% of the total options can be exercised 5 years after the grant date.
- The closing price immediately before the date on which the options were granted on 4 April 2019 was HKD378.
- The weighted average closing price immediately before the date on which the options were exercised was HKD338.97.

Other Information

Details of movements of share options granted to employees and certain external consultants under the share option schemes adopted by TME, a subsidiary of the Group, during the six months ended 30 June 2019 are as follows:

Date of grant	Number of share options				As at 30 June 2019	Exercise price USD	Exercise period
	As at 1 January 2019	Granted during the period (Note 7)	Exercised during the period (Note 6)	Lapsed/ forfeited during the period			
Employees							
1 Mar 2015	12,945,345	–	6,874,308	13,609	6,057,428	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	10,776,631	–	6,879,678	–	3,896,953	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
30 Mar 2015	3,748,650	–	488,630	7,962	3,252,058	0.27	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Jul 2015	75,100	–	–	–	75,100	0.27	1 Jul 2016 to 30 Jun 2025 (Note 1)
1 Oct 2015	791,880	–	42,682	7,440	741,758	0.27	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	3,036,686	–	551,256	43,586	2,441,844	0.27	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	230,750	–	6,000	–	224,750	0.000076	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	746,643	–	345,060	–	401,583	0.27	1 Mar 2017 to 28 Feb 2026 (Note 1)
31 Mar 2016	370,040	–	164,676	–	205,364	0.27	31 Mar 2017 to 30 Mar 2026 (Note 1)
1 Jun 2016	7,098,340	–	7,098,340	–	–	0.27	1 Jun 2017 to 31 May 2026 (Note 2)
30 Jun 2016	653,070	–	326,532	–	326,538	0.000076	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	11,200,035	–	1,851,980	170,352	9,177,703	0.27	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	2,687,126	–	520,926	–	2,166,200	2.32	5 Jul 2017 to 15 Jun 2027 (Note 3)
16 Jun 2017	10,411,804	–	1,722,444	–	8,689,360	2.32	31 Mar 2018 to 15 Jun 2027 (Note 3)
31 Aug 2017	7,768,593	–	1,498,612	102,265	6,167,716	0.27	31 Aug 2018 to 30 Aug 2027 (Note 1)
20 Dec 2017	7,902,280	–	824,170	–	7,078,110	2.32	20 Dec 2018 to 19 Dec 2027 (Note 3)
16 Apr 2018	1,300,000	–	325,000	–	975,000	4.04	16 Apr 2019 to 15 Apr 2028 (Note 3)
17 Oct 2018	2,319,000	–	–	–	2,319,000	7.14	12 Jul 2019 to 16 Oct 2028 (Note 3)
17 Oct 2018	3,697,500	–	–	–	3,697,500	7.14	12 Jul 2020 to 16 Oct 2028 (Note 4)
14 Jun 2019	–	1,993,780	–	–	1,993,780	7.05	14 Jun 2020 to 13 Jun 2029 (Notes 3 and 5)
Sub-total:	<u>87,759,473</u>	<u>1,993,780</u>	<u>29,520,294</u>	<u>345,214</u>	<u>59,887,745</u>		
External consultants							
1 Mar 2015	2,348,099	–	1,312,072	–	1,036,027	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	2,714,940	–	2,094,430	–	620,510	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	<u>5,063,039</u>	<u>–</u>	<u>3,406,502</u>	<u>–</u>	<u>1,656,537</u>		
Total:	<u>92,822,512</u>	<u>1,993,780</u>	<u>32,926,796</u>	<u>345,214</u>	<u>61,544,282</u>		

Other Information

Note:

1. The first 25% of the total options can be exercised 1 year after the commencement dates as specified in the relevant grant letters, and each 12.5% of the total options will become exercisable in each subsequent six months.
 2. All the options can be exercised 1 year after the commencement date as specified in the relevant grant letter if a certain condition is satisfied.
 3. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
 4. The first 25% of the total options can be exercised 2 years after the commencement dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
 5. The closing price immediately before the date on which the options were granted on 14 June 2019 was USD7.13.
 6. The weighted average closing price immediately before the date on which the options were exercised was USD7.59.
 7. The fair value of the options as at the respective grant dates was determined using the “Enhanced FAS 123” binomial model which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the six months ended 30 June 2019 was USD6.00 per share. Other than the exercise price mentioned above, significant assumptions (which are subject to subjectivity and uncertainty) used to estimate the fair value of the options include risk free rate (2.08%), dividend yield (nil) and expected volatility* (40%).
- * The expected volatility was estimated based on the historical volatility of the share prices of similar United States and Hong Kong public companies for a period equal to the expected life preceding the grant date.

Other Information

SHARE AWARD SCHEMES

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

2007 Share Award Scheme

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

Pursuant to the 2007 Share Award Scheme, the Board shall select the Eligible Person(s) for participation in the 2007 Share Award Scheme and determine the number of shares to be awarded.

The Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of grant of the award. Vesting of the Awarded Shares will be conditional on the Selected Participants satisfying all vesting conditions specified by the Board at the time of making the award and, for the majority of the Selected Participants, the relevant Awarded Shares will be transferred to the Selected Participants on or after the relevant vesting dates.

2013 Share Award Scheme

The 2013 Share Award Scheme shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant. The maximum number of shares which can be awarded under the 2013 Share Award Scheme and to a Selected Participant are limited to three percent (i.e. 278,937,260 shares) and one percent (i.e. 92,979,085 shares) of the issued shares of the Company respectively as at the Adoption Date II.

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

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

For the above two share award schemes, upon granting of the Awarded Shares, shares will be acquired by the Trustee at the cost of the Company or shares will be allotted to the Trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time (except for those shares granted to the directors or substantial shareholders of the Company), and will be held in trust for the Selected Participants until the end of each vesting period. Vested shares will be transferred at no cost to the Selected Participants.

Other Information

During the six months ended 30 June 2019, a total of 28,190,873 Awarded Shares were granted under the 2013 Share Award Scheme and out of which 53,500 Awarded Shares were granted to the independent non-executive directors of the Company. Details of the movements in the Share Award Schemes during the six months ended 30 June 2019 are set out in Note 25 to the Interim Financial Information as included in this interim report.

As at 30 June 2019, there were a total of 131,363 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

Name of director	Date of grant	Number of Awarded Shares			As at 30 June 2019	Vesting period
		As at 1 January 2019	Granted during the period	Vested during the period		
Iain Ferguson Bruce	24 March 2014	10,000	–	10,000	–	24 March 2015 to 24 March 2019
	2 April 2015	7,500	–	7,500	–	2 April 2016 to 2 April 2019
	21 March 2016	10,000	–	5,000	5,000	21 March 2017 to 21 March 2020
	24 March 2017	15,000	–	5,000	10,000	24 March 2018 to 24 March 2021
	9 April 2018	10,000	–	2,500	7,500	9 April 2019 to 9 April 2022
	4 April 2019	–	13,000	–	13,000	4 April 2020 to 4 April 2023
	Total:		52,500	13,000	30,000	35,500
Ian Charles Stone	24 March 2014	10,000	–	10,000	–	24 March 2015 to 24 March 2019
	2 April 2015	7,500	–	7,500	–	2 April 2016 to 2 April 2019
	21 March 2016	10,000	–	5,000	5,000	21 March 2017 to 21 March 2020
	24 March 2017	15,000	–	5,000	10,000	24 March 2018 to 24 March 2021
	9 April 2018	13,000	–	3,250	9,750	9 April 2019 to 9 April 2022
	4 April 2019	–	17,000	–	17,000	4 April 2020 to 4 April 2023
	Total:		55,500	17,000	30,750	41,750

Other Information

Name of director	Date of grant	Number of Awarded Shares			As at 30 June 2019	Vesting period
		As at 1 January 2019	Granted during the period	Vested during the period		
Li Dong Sheng	24 March 2014	5,000	–	5,000	–	24 March 2015 to 24 March 2019
	2 April 2015	3,750	–	3,750	–	2 April 2016 to 2 April 2019
	21 March 2016	5,000	–	2,500	2,500	21 March 2017 to 21 March 2020
	24 March 2017	7,500	–	2,500	5,000	24 March 2018 to 24 March 2021
	9 April 2018	6,500	–	1,625	4,875	9 April 2019 to 9 April 2022
	4 April 2019	–	8,500	–	8,500	4 April 2020 to 4 April 2023
	Total:	<u>27,750</u>	<u>8,500</u>	<u>15,375</u>	<u>20,875</u>	
Yang Siu Shun	6 July 2016	5,738	–	–	5,738	6 July 2017 to 6 July 2020
	24 March 2017	7,500	–	2,500	5,000	24 March 2018 to 24 March 2021
	9 April 2018	10,000	–	2,500	7,500	9 April 2019 to 9 April 2022
	4 April 2019	–	15,000	–	15,000	4 April 2020 to 4 April 2023
	Total:	<u>23,238</u>	<u>15,000</u>	<u>5,000</u>	<u>33,238</u>	
Grand Total:	<u>158,988</u>	<u>53,500</u>	<u>81,125</u>	<u>131,363</u>		

Other Information

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 47, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 13th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 25 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr Ma also serves as a director of certain subsidiaries of the Company. Mr Ma is entitled to an annual base salary of RMB7,476,300 in 2019 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.

Lau Chi Ping Martin, age 46, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted to President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science degree in Electrical Engineering from University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. Mr Lau is currently a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider, and Meituan Dianping, a China's leading eCommerce platform for services; both of these companies are publicly listed on the Stock Exchange. Mr Lau is also a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, Vipshop Holdings Limited, an online discount retailer company, and TME, an online music entertainment platform in China; all of these companies are listed on the New York Stock Exchange. Mr Lau is also a director of JD.com, Inc., an online direct sales company in China, that is listed on NASDAQ. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company. Mr Lau is entitled to an annual base salary of USD1,120,000 in 2019 which was covered by the current service contract with the Company and the basis of determining his emoluments including the base salary and bonus as set out in the service contract remained the same.

Jacobus Petrus (Koos) Bekker, age 66, has been a non-executive director since November 2012. Koos led the founding team of the M-Net/MultiChoice pay-television business in 1985. He was also a founder director of MTN in cellular telephony. Koos headed the MIH group in its international and Internet expansions until 1997, when he became chief executive of Naspers. He serves on the boards of other companies within the group and associates, as well as other bodies. In April 2015, he became non-executive chair. Academic qualifications include BA Hons and honorary doctorate in commerce (Stellenbosch University), LLB (University of the Witwatersrand) and MBA (Columbia University, New York). Koos as a non-executive director is not entitled to any director's fee or emoluments.

Other Information

Charles St Leger Searle, age 55, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, including Mail.ru Group Limited that is listed on the London Stock Exchange and MakeMyTrip Limited that is listed on NASDAQ. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 25 years of international experience in the telecommunications and Internet industries. Mr Searle also serves as a director of certain subsidiaries of the Company. Mr Searle as a non-executive director is not entitled to any director's fee or emoluments.

Li Dong Sheng, age 62, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation, which produces consumer electronic products and is listed on the Shenzhen Stock Exchange. Mr Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 24 years of experience in the information technology field. Mr Li is the Chairman of TCL Communication Technology Holdings Limited, which was delisted for privatisation from the Stock Exchange on 30 September 2016. Mr Li was the Chairman and executive director of TCL Multimedia Technology Holdings Limited (now known as TCL Electronics Holdings Limited) that is listed on the Stock Exchange up to 22 September 2017, and was also an independent director of Legrand that is listed on the New York Stock Exchange Euronext up to 30 May 2018. Mr Li is entitled to a director's fee of HK\$800,000 per annum for the year 2019, which is determined with reference to his duties and responsibilities with the Company.

Iain Ferguson Bruce, age 78, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 54 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, South Shore Holdings Limited (formerly known as The 13 Holdings Limited), a construction, engineering services and hotel development company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the Stock Exchange. Mr Bruce is also an independent non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce was a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited, up to 11 May 2017, and was also an independent non-executive director of Citibank (Hong Kong) Limited, up to 2 August 2017. Mr Bruce was also an independent non-executive director of MSIG Insurance (Hong Kong) Limited, up to 1 July 2018. Mr Bruce is entitled to a director's fee of HK\$1,100,000 per annum for the year 2019, which is determined with reference to his duties and responsibilities with the Company.

Other Information

Ian Charles Stone, age 68, has been an independent non-executive director since April 2004. Mr Stone is currently an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. His career in the last 29 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. Since 2011, Mr Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong (China), Mainland China, South East Asia and the Middle East. Mr Stone has more than 48 years of experience in the telecom and mobile industries. Mr Stone is a fellow member of The Hong Kong Institute of Directors. Mr Stone also serves as an independent non-executive director of a subsidiary of the Company. Mr Stone is entitled to a director's fee of HK\$1,100,000 per annum for the year 2019, which is determined with reference to his duties and responsibilities with the Company.

Yang Siu Shun, age 63, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a Steward of the Hong Kong Jockey Club, and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the Stock Exchange and the Shanghai Stock Exchange. Mr Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr Yang also served as a Board Member and the Audit Committee Chairman of the Hang Seng Management College, up to 30 September 2018 and the Deputy Chairman of the Council of the Open University of Hong Kong, up to 19 June 2019. Mr Yang graduated from the London School of Economics and Political Science in 1978. Mr Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. Mr Yang is entitled to a director's fee of HK\$1,000,000 per annum for the year 2019, which is determined with reference to his duties and responsibilities with the Company.

Other Information

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the shares of the Company:

Long/ short position in the shares of the Company

Name of shareholder	Long/ short position	Nature of interest/ capacity	Number of shares/ underlying shares held	Approximate % of shareholding
MIH TC	Long position	Corporate (Note 1)	2,961,223,600	31.10%
Advance Data Services Limited	Long position	Corporate (Note 2)	819,507,500	8.61%

Note:

1. MIH TC is wholly-owned by Naspers Limited indirectly through its wholly-owned intermediary companies, MIH Holdings Proprietary Limited, Myriad International Holdings N.V. and MIH Services FZ LLC. As such, Naspers Limited, MIH Holdings Proprietary Limited, Myriad International Holdings N.V. and MIH Services FZ LLC are deemed to be interested in the same block of 2,961,223,600 shares under Part XV of the SFO.
2. Advance Data Services Limited holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of "Directors' Interests in Securities".

Save as disclosed above, the Company had not been notified of any other persons (other than the directors or chief executive of the Company) who, as at 30 June 2019, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Other Information

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2019.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group had 56,310 employees (30 June 2018: 48,684). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the six months ended 30 June 2019 was RMB24,259 million (for the six months ended 30 June 2018: RMB19,938 million).

AUDIT COMMITTEE

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2019. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed in the corporate governance report in the 2018 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions as set out in the CG Code during the period from 1 January 2019 to 30 June 2019.

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

Definition

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

Term	Definition
“2007 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date I, as amended
“2013 Share Award Scheme”	the share award scheme adopted by the Company on Adoption Date II, as amended
“2019 AGM”	the annual general meeting of the Company held on 15 May 2019
“Adoption Date I”	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
“Adoption Date II”	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
“AR”	augmented reality
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Awarded Share(s)”	the share(s) of the Company awarded under the Share Award Schemes
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Eligible Person(s)”	any person(s) eligible to participate in the respective Share Award Schemes
“EPS”	earnings per share
“EUR”	the lawful currency of European Union
“FIFA”	International Federation of Association Football
“FinTech”	financial technology

Definition

Term	Definition
“GAAP”	Generally Accepted Accounting Principles
“Grant Date”	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IaaS”	Infrastructure-as-a-Service
“IFRS”	International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“Meituan Dianping”	Meituan Dianping, a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange
“MIH TC”	MIH TC Holdings Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NASDAQ”	NASDAQ Global Select Market
“O2O”	online-to-offline, or offline-to-online
“PC”	personal computer
“PICC”	the People’s Insurance Company (Group) of China Limited
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
“PRC” or “China”	the People’s Republic of China

Definition

Term	Definition
“PRC CIT”	PRC corporate income tax as defined in the “Corporate Income Tax Law of the People’s Republic of China”
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“R&D”	research and development
“RMB”	the lawful currency of the PRC
“RPG”	role playing game
“Selected Participant(s)”	any Eligible Person(s) selected by the Board to participate in the Share Award Schemes
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share Award Schemes”	the 2007 Share Award Scheme and the 2013 Share Award Scheme
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited
“TME”	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands and listed on the New York Stock Exchange
“Trustee”	an independent trustee appointed by the Company for managing the Share Award Schemes
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services



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