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Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018

The Board is pleased to announce the unaudited consolidated results of the Group for the three and six months ended 30 June 2018. These interim results have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited				
	Three months ended				
	30 June		Year-		Quarter-
	2018	30 June	on-year	31 March	on-quarter
		2017	change	2018	change
	(RMB in millions, unless specified)				
Revenues	73,675	56,606	30%	73,528	-
Gross profit	34,446	28,306	22%	37,042	-7%
Operating profit	21,807	22,560	-3%	30,692	-29%
Profit for the period	18,580	18,254	2%	23,973	-22%
Profit attributable to equity holders of the Company	17,867	18,231	-2%	23,290	-23%
Non-GAAP profit attributable to equity holders of the Company	19,716	16,391	20%	18,313	8%
EPS (RMB per share)					
- basic	1.893	1.939	-2%	2.470	-23%
- diluted	1.868	1.914	-2%	2.435	-23%
Non-GAAP EPS (RMB per share)					
- basic	2.089	1.743	20%	1.942	8%
- diluted	2.062	1.721	20%	1.915	8%

Unaudited
Six months ended

	30 June 2018	30 June 2017	Year- on-year change
	(RMB in millions, unless specified)		
Revenues	147,203	106,158	39%
Gross profit	71,488	53,749	33%
Operating profit	52,499	41,832	25%
Profit for the period	42,553	32,802	30%
Profit attributable to equity holders of the Company	41,157	32,707	26%
Non-GAAP profit attributable to equity holders of the Company	38,029	30,602	24%
EPS (RMB per share)			
- basic	4.363	3.480	25%
- diluted	4.303	3.436	25%
Non-GAAP EPS (RMB per share)			
- basic	4.031	3.256	24%
- diluted	3.976	3.215	24%

BUSINESS REVIEW AND OUTLOOK

1. Company Financial Performance

In the second quarter of 2018

Revenues increased by 30% year-on-year, driven primarily by payment related services, digital content subscriptions and sales, social and others advertising, and smart phone games.

Non-GAAP operating profit increased by 11% year-on-year.

Profit attributable to equity holders of the Company slightly decreased by 2% year-on-year, mainly due to lower net other gains generated from investment related items compared to the same period last year. Non-GAAP profit attributable to equity holders increased by 20% year-on-year.

2. Company Strategic Highlights

Key strategic initiatives in recent months include:

- Expanding the capabilities and usage of Mini Programs by integrating them with other digital tools, such as Weixin Pay, to provide customised solutions for a broader range of verticals. As the company leading Mini Programs innovation, we have built up a sizable developer ecosystem with a large and expanding base of external developers and software integrators, as well as a consumer base of over 200 million DAUs. We view Mini Programs as complementary to native mobile apps, and believe Mini Programs will contribute materially to our user experience, to our enterprise relationships, and to the development of our payment, advertising and cloud businesses.
- Deepening user engagement on our social networks, content services, and utility apps by launching innovative features and products appealing to users. For example, we have notably increased user time spent on QQ KanDian, the news feed feature within our QQ app, and on Mobile QQ Browser, our mobile browser product, via inclusion of short and mini video feeds. During the quarter, the total daily page views of QQ KanDian and Mobile QQ Browser together increased 55% year-on-year, while the total daily short video views of the two properties combined climbed over 3 times, year-on-year.

- Reallocating capital to high priority projects. Recently, we have invested aggressively in game live broadcast services, which we view as supportive to our game platform, and in smart retail opportunities, which we view as supportive to our payment and cloud services. We have partially funded these investments by monetising some existing investments, for example, exiting our positions in investee companies Ele.me and Mobike.

Looking forward, we are seeking to reinvigorate our mobile game revenue growth, via initiatives including deepening engagement with our existing major titles, monetising the proven popularity of tactical tournament games, launching a broader range of games in high-ARPU categories (such as the RPG genre), and increasing contributions from publishing our China-developed games internationally. While we expect these measures will require several months to take effect, we are encouraged by the ongoing growth in the number of DAUs playing our mobile games, and in our belief that our monetisation per DAU offers substantial upside to match the levels already enjoyed by our industry peers.

3. Company Business Highlights

Operating Information

	As at 30 June 2018	As at 30 June 2017	Year- on-year change	As at 31 March 2018	Quarter- on-quarter change
	(in millions, unless specified)				
MAU of QQ	803.2	850.1	-5.5%	805.5	-0.3%
Smart device MAU of QQ	708.6	662.3	7.0%	694.1	2.1%
Combined MAU of Weixin and WeChat	1,057.7	962.8	9.9%	1,040.0	1.7%
MAU of Qzone	548.3	605.8	-9.5%	562.3	-2.5%
Smart device MAU of Qzone	542.7	585.7	-7.3%	550.0	-1.3%
Fee-based VAS registered subscriptions	153.9	118.1	30.3%	147.1	4.6%

Communication and Social

- *QQ*: Smart device MAU increased by 7.0% year-on-year to 708.6 million. User activities benefited from new entertainment-driven features and content appealing for young users. Smart device MAU and DAU for users aged 21 years or below each achieved double-digit growth year-on-year. QQ KanDian, our news feed service within QQ, enhanced its recommendation algorithm for short and mini videos, driving daily video views to more than double quarter-on-quarter.
- *Weixin and WeChat*: MAU reached 1,057.7 million, representing year-on-year growth of 9.9%. Riding on the swift growth of Mini Programs and Weixin Pay use cases, DAU grew at a faster pace than MAU, reflecting greater user engagement and stickiness. User activities in Weixin Mini Games and Moments continued to increase, driving up time spent per user per day in those activities.

Online Games

Smart phone games revenues (including smart phone games revenues attributable to our social networks business) grew 19% year-on-year and declined 19% sequentially to RMB17.6 billion, mainly due to non-monetisation of popular tactical tournament games and timing of new game releases. In China, DAU for our smart phone games grew at a double-digit rate year-on-year, but monetisation per user declined as users shifted time to non-monetised tactical tournament games. During the quarter, we focused on user engagement of our existing titles, and particularly on winning the domestic competition amongst tactical tournament games for users. Also, five of seven new games were published in the latter part of the quarter. Looking forward, we are seeking to execute several initiatives to reinvigorate growth, including:

- Monetising the proven popularity of tactical tournament games.
- Boosting engagement and ultimately monetisation of existing games — for example, Honour of Kings launched a new survival play mode.
- Launching new games in high ARPU categories — for example, MT4, a new game in the high ARPU MMORPG category, has ranked among China's top 3 game grossing chart in the iOS app store since its July launch.

- Capturing suitable international monetisation opportunities — for example, we view our internally developed games Arena of Valor and PUBG MOBILE, as highly suitable for expansion to gamers outside China. Arena of Valor has built up over 13 million DAUs and over USD30 million grossing per month in the first half of the year outside China. PUBG MOBILE has attracted over 14 million DAUs (excluding Japan and Korea) and generated over USD20 million grossing in July outside China.

PC client games revenues were down by 5% year-on-year and down by 8% quarter-on-quarter to RMB12.9 billion. The year-on-year revenue decline was due to users' time shift to mobile games while the sequential revenue decline was due to weak seasonality. However, we believe our core users remained loyal to key titles. For instance, DnF introduced marketing activities celebrating the 10th anniversary of its China launch in June, driving year-on-year growth in paying users and ARPU for the quarter. LoL's DAU in China increased quarter-on-quarter, benefiting from the popularity of its mid-season invitational (MSI) event in Paris, which was won by a Chinese team.

Digital Content

Our total fee-based VAS subscriptions were up by 30% year-on-year to 154 million subscriptions, primarily driven by strong uptake of video subscription services. Digital content revenues grew substantially year-on-year and at a high single digit percentage rate quarter-on-quarter, benefiting from take-up of our market leading video and music subscription services, as well as from healthy usage of, and monetisation on, our live broadcasting and online literature products. Our video services achieved 74 million subscriptions, up 121% year-on-year and maintaining our industry-leading position in China. We attribute this success primarily to our exclusive content in key video genres. For instance, an exclusive drama series, Legend of Fuyao, which was sourced from an IP developed with our listed subsidiary China Literature, was ranked the number one exclusive drama series by video views industry-wide in the first half of the year. Our self-commissioned variety show, Produce 101, was ranked the number one online variety show by video views industry-wide. Additionally, our Chinese anime traffic more than doubled on a year-on-year basis, leading the industry in terms of video views, thanks to our strong IPs and proven production capabilities.

Our mini video sharing app, WeiShi, added innovative features, such as AI-based beautifying tools, and online voting functionality to deepen celebrity-fans interaction. We saw robust daily video views growth for mini videos across several of our apps, including Mobile QQ, Mobile QQ Browser and the WeiShi app itself.

Online Advertising

Our online advertising business achieved 39% year-on-year and 32% quarter-on-quarter growth in revenues.

For media advertising, revenues grew by 16% year-on-year and 43% quarter-on-quarter. Our video advertising revenues benefited from advertising sponsorships of our strengthening content portfolio, such as our variety show Produce 101, and from positive seasonality on a quarter-on-quarter basis. Our news advertising revenues recorded a single-digit year-on-year decline due to a reduction in monetisation that we undertook starting in the third quarter of 2017, but achieved quarter-on-quarter growth rate as we stepped up the advertising load for our news feed products after completion of our advertising system revamp, as well as benefiting from positive seasonality.

For social and others advertising, the 55% year-on-year and 27% quarter-on-quarter increase in revenues benefited from factors including more advertising inventories in Weixin Moments, new advertising inventories in Mini Programs, higher impressions and eCPMs for our Mobile Ad Network, and enhanced traffic and monetisation for our QQ KanDian news feed. The sequential increase in revenues was mainly due to the features above, as well as positive seasonality.

Others

We recorded 81% year-on-year and 10% quarter-on-quarter revenue growth for our other businesses, mainly contributed by our payment and related financial services, and by our cloud services.

We continued to expand the user base of our payment business with MAU surpassing 800 million at the end of June this year. The average daily transaction volume increased by over 40% year-on-year. Benefiting from our initiatives on smart retail and high-frequency low-value payment use cases solutions, our offline commercial payment volume maintained rapid growth, up 280% year-on-year. Commercial payment volume accounted for over half of our total transaction volume for the first time. Our payment service revenues and, to a greater extent, gross margins continue to be adversely affected by the People's Bank of China progressively increasing its centralised deposit ratio requirement for third party online payment services providers, which reduces the overnight cash balances on which payment service providers previously received interest income. This centralised deposit ratio has increased to 42% in April 2018, and to 52% in July 2018, and is reported to ultimately increase to 100% in the near future. We are currently approximately mid-way through this transition, and are seeking to mitigate the impact through various monetisation initiatives elsewhere in our payment and related financial services.

Our cloud services revenues doubled year-on-year. We continued to deepen our penetration in key sectors including finance, smart retail and municipal services by signing up key accounts within each sector. Apart from utilising our advanced data analytics and AI technologies to better serve specific industry needs, we invested in and formed strategic partnerships with certain system integrators in order to offer more customised cloud services and speed up our expansion in offline industries. We further expanded our global cloud infrastructure footprint in tandem with the overseas development of our external clients and internal businesses — Tencent Cloud now operates in 45 availability zones worldwide compared to 34 availability zones a year ago. We will continue to grow our cloud business via organic growth as well as collaboration and investment opportunities, seeking to build a vibrant cloud ecosystem.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2018 Compared to Second Quarter of 2017

The following table sets forth the comparative figures for the second quarter of 2018 and the second quarter of 2017:

	Unaudited	
	Three months ended	
	30 June	30 June
	2018	2017
	(RMB in millions)	
Revenues	73,675	56,606
Cost of revenues	<u>(39,229)</u>	<u>(28,300)</u>
Gross profit	34,446	28,306
Interest income	1,072	959
Other gains, net	2,506	5,125
Selling and marketing expenses	(6,360)	(3,660)
General and administrative expenses	<u>(9,857)</u>	<u>(8,170)</u>
Operating profit	21,807	22,560
Finance costs, net	(1,151)	(834)
Share of profit of associates and joint ventures	<u>1,526</u>	<u>498</u>
Profit before income tax	22,182	22,224
Income tax expense	<u>(3,602)</u>	<u>(3,970)</u>
Profit for the period	<u>18,580</u>	<u>18,254</u>
Attributable to:		
Equity holders of the Company	17,867	18,231
Non-controlling interests	<u>713</u>	<u>23</u>
	<u>18,580</u>	<u>18,254</u>
Non-GAAP profit attributable to equity holders of the Company	<u>19,716</u>	<u>16,391</u>

Revenues. Revenues increased by 30% to RMB73,675 million for the second quarter of 2018 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2018 and the second quarter of 2017:

	Unaudited			
	Three months ended			
	30 June 2018		30 June 2017	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	42,069	57%	36,804	65%
Online advertising	14,110	19%	10,148	18%
Others	17,496	24%	9,654	17%
Total revenues	<u>73,675</u>	<u>100%</u>	<u>56,606</u>	<u>100%</u>

- Revenues from our VAS business increased by 14% to RMB42,069 million for the second quarter of 2018 on a year-on-year basis. Online games revenues increased by 6% to RMB25,202 million. The increase primarily reflected growth in revenues from our smart phone games such as Honour of Kings and QQ Speed Mobile. Social networks revenues grew by 30% to RMB16,867 million. The increase was mainly driven by higher contributions from digital content services such as video streaming subscriptions and live broadcast services.
- Revenues from our online advertising business increased by 39% to RMB14,110 million for the second quarter of 2018 on a year-on-year basis. Social and others advertising revenues increased by 55% to RMB9,380 million. The increase was mainly driven by higher revenues derived from Weixin (primarily Weixin Moments and Mini Programs), our mobile advertising network and QQ KanDian. Media advertising revenues grew by 16% to RMB4,730 million. The growth mainly reflected greater contributions from Tencent Video as a result of its content portfolio and advertisers' sponsorship campaigns.
- Revenues from our other businesses increased by 81% to RMB17,496 million for the second quarter of 2018 on a year-on-year basis, primarily benefiting from growth at our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 39% to RMB39,229 million for the second quarter of 2018 on a year-on-year basis. The increase mainly reflected greater costs of payment related services, channel costs, and content costs. As a percentage of revenues, cost of revenues increased to 53% for the second quarter of 2018 from 50% for the second quarter of 2017. The following table sets forth our cost of revenues by line of business for the second quarter of 2018 and the second quarter of 2017:

	Unaudited			
	Three months ended			
	30 June 2018		30 June 2017	
	Amount	% of segment revenues	Amount	% of segment revenues
(RMB in millions, unless specified)				
VAS	17,253	41%	14,501	39%
Online advertising	8,838	63%	6,307	62%
Others	<u>13,138</u>	75%	<u>7,492</u>	78%
Total cost of revenues	<u><u>39,229</u></u>		<u><u>28,300</u></u>	

- Cost of revenues for our VAS business increased by 19% to RMB17,253 million for the second quarter of 2018 on a year-on-year basis. The increase mainly reflected a mix shift toward, and greater content costs for, digital content activities including video streaming subscriptions and live broadcast, and higher channel costs for our smart phone games.
- Cost of revenues for our online advertising business increased by 40% to RMB8,838 million for the second quarter of 2018 on a year-on-year basis. The increase was driven by greater traffic acquisition costs and content costs, as well as bandwidth and server custody fees.
- Cost of revenues for our other businesses increased by 75% to RMB13,138 million for the second quarter of 2018 on a year-on-year basis, mainly due to the increased scale of our payment related and cloud services.

Other gains, net. Net other gains decreased by 51% to RMB2,506 million for the second quarter of 2018 on a year-on-year basis. The decrease primarily reflected decline in net gains from deemed disposal of investments, as well as higher impairment provision against certain investments, which was partly offset by gains from net increase in the fair value of our investment portfolio.

Selling and marketing expenses. Selling and marketing expenses increased by 74% to RMB6,360 million for the second quarter of 2018 on a year-on-year basis. The increase was mainly driven by greater marketing spending on our products and platforms such as online games, online media, payment related services and mobile utilities. As a percentage of revenues, selling and marketing expenses increased to 9% for the second quarter of 2018 from 6% for the second quarter of 2017.

General and administrative expenses. General and administrative expenses increased by 21% to RMB9,857 million for the second quarter of 2018 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 decreased to 13% for the second quarter of 2018 from 14% for the second quarter of 2017.

Finance costs, net. Net finance costs increased by 38% to RMB1,151 million for the second quarter of 2018 on a year-on-year basis. The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Share of profit of associates and joint ventures. Share of profit of associates and joint ventures increased by 206% to RMB1,526 million for the second quarter of 2018 on a year-on-year basis. The increase was mainly due to a significant increase in profit contribution from an overseas associate whose tactical tournament game has achieved widespread popularity.

Income tax expense. Income tax expense decreased by 9% to RMB3,602 million for the second quarter of 2018 on a year-on-year basis. The decrease was primarily driven by lower withholding tax provided.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 2% to RMB17,867 million for the second quarter of 2018 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 20% to RMB19,716 million.

Second Quarter of 2018 Compared to First Quarter of 2018

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

	Unaudited	
	Three months ended	
	30 June	31 March
	2018	2018
	(RMB in millions)	
Revenues	73,675	73,528
Cost of revenues	<u>(39,229)</u>	<u>(36,486)</u>
Gross profit	34,446	37,042
Interest income	1,072	1,065
Other gains, net	2,506	7,585
Selling and marketing expenses	(6,360)	(5,570)
General and administrative expenses	<u>(9,857)</u>	<u>(9,430)</u>
Operating profit	21,807	30,692
Finance costs, net	(1,151)	(654)
Share of profit/(loss) of associates and joint ventures	<u>1,526</u>	<u>(319)</u>
Profit before income tax	22,182	29,719
Income tax expense	<u>(3,602)</u>	<u>(5,746)</u>
Profit for the period	<u>18,580</u>	<u>23,973</u>
Attributable to:		
Equity holders of the Company	17,867	23,290
Non-controlling interests	<u>713</u>	<u>683</u>
	<u>18,580</u>	<u>23,973</u>
Non-GAAP profit attributable to equity holders of the Company	<u>19,716</u>	<u>18,313</u>

Revenues. Revenues for the second quarter of 2018 were RMB73,675 million, essentially flat quarter-on-quarter as lower games revenues offset increased advertising, payment and digital content revenues.

- Revenues from our VAS business decreased by 10% to RMB42,069 million for the second quarter of 2018. Online games revenues decreased by 12% to RMB25,202 million, mainly reflecting users shifting time into our non-monetised tactical tournament games, timing of new game launches and weaker seasonality. Social networks revenues decreased by 7% to RMB16,867 million, primarily reflecting a decrease in revenues from in-game virtual item sales, partially offset by higher revenues from our digital content services such as video streaming subscriptions and live broadcast services.
- Revenues from our online advertising business increased by 32% to RMB14,110 million for the second quarter of 2018. Social and others advertising revenues grew by 27% to RMB9,380 million. The increase was mainly driven by positive seasonality and increased advertising inventories for properties such as Weixin Moments and Mini Programs. Media advertising revenues increased by 43% to RMB4,730 million. The increase primarily reflected positive seasonality and gradual deployment of advertisements in our popular news feed products.
- Revenues from our other businesses increased by 10% to RMB17,496 million for the second quarter of 2018. The increase mainly reflected growth in revenues from our payment related services.

Cost of revenues. Cost of revenues increased by 8% to RMB39,229 million for the second quarter of 2018 on a quarter-on-quarter basis. The increase primarily reflected greater content costs and costs of payment related services. As a percentage of revenues, cost of revenues increased to 53% for the second quarter of 2018 from 50% for the first quarter of 2018.

- Cost of revenues for our VAS business was RMB17,253 million for the second quarter of 2018, broadly stable compared to previous quarter, as reduced revenue-variable costs for some of our games offset increased subscription video and music content costs.
- Cost of revenues for our online advertising business increased by 20% to RMB8,838 million for the second quarter of 2018. The increase was primarily driven by greater content costs and traffic acquisition costs.
- Cost of revenues for our other businesses increased by 10% to RMB13,138 million for the second quarter of 2018. The increase was mainly due to our payment related services.

Selling and marketing expenses. Selling and marketing expenses increased by 14% to RMB6,360 million for the second quarter of 2018 on a quarter-on-quarter basis. The increase primarily reflected seasonally more advertising and promotional activities in the second quarter than the first quarter.

General and administrative expenses. General and administrative expenses increased by 5% to RMB9,857 million for the second quarter of 2018 on a quarter-on-quarter basis. The increase mainly reflected greater R&D expenses and staff costs.

Share of profit/(loss) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB1,526 million for the second quarter of 2018, compared to share of losses of RMB319 million for the first quarter of 2018. The change was mainly due to a significant increase in profit contribution from an overseas associate whose tactical tournament game has achieved widespread popularity.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 23% to RMB17,867 million for the second quarter of 2018 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 8% to RMB19,716 million.

Other Financial Information

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June	31 March	30 June	30 June	30 June
	2018	2018	2017	2018	2017
	(RMB in millions, unless specified)				
EBITDA (a)	26,409	29,247	22,427	55,656	42,422
Adjusted EBITDA (a)	28,139	30,856	23,802	58,995	45,102
Adjusted EBITDA margin (b)	38%	42%	42%	40%	42%
Interest expense	1,188	1,067	760	2,255	1,427
Net (debt)/cash (c)	(35,301)	(14,533)	21,267	(35,301)	21,267
Capital expenditures (d)	7,085	6,318	3,010	13,403	5,118

Note:

- (a) EBITDA consists of operating profit less interest income and other gains/losses, net, and plus depreciation of property, plant and equipment as well as investment properties, and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.
- (c) Net (debt)/cash 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 licenses 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
	2018	2018	2017	2018	2017
	(RMB in millions, unless specified)				
Operating profit	21,807	30,692	22,560	52,499	41,832
Adjustments:					
Interest income	(1,072)	(1,065)	(959)	(2,137)	(1,767)
Other gains, net	(2,506)	(7,585)	(5,125)	(10,091)	(8,316)
Depreciation of property, plant and equipment and investment properties	1,918	1,664	1,158	3,582	2,241
Amortisation of intangible assets	6,262	5,541	4,793	11,803	8,432
EBITDA	26,409	29,247	22,427	55,656	42,422
Equity-settled share-based compensation	1,730	1,609	1,375	3,339	2,680
Adjusted EBITDA	<u>28,139</u>	<u>30,856</u>	<u>23,802</u>	<u>58,995</u>	<u>45,102</u>

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 announcement. 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 impacts of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP

adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the second quarter of 2018 and 2017, the first quarter of 2018, and the first half of 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 30 June 2018						
	Adjustments					Non-GAAP
	As reported	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
	(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)						
Operating profit	21,807	1,798	(4,010)	99	2,564	22,258
Profit for the period	18,580	2,562	(4,033)	813	2,577	20,499
Profit attributable to equity holders	17,867	2,478	(3,986)	779	2,578	19,716
EPS (RMB per share)						
- basic	1.893					2.089
- diluted	1.868					2.062
Operating margin	30%					30%
Net margin	25%					28%

Unaudited three months ended 31 March 2018						
	Adjustments					Non-GAAP
	As reported	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
	(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)						
Operating profit	30,692	1,632	(7,788)	100	636	25,272
Profit for the period	23,973	1,682	(7,765)	531	709	19,130
Profit attributable to equity holders	23,290	1,585	(7,766)	495	709	18,313
EPS (RMB per share)						
- basic	2.470					1.942
- diluted	2.435					1.915
Operating margin	42%					34%
Net margin	33%					26%

Unaudited three months ended 30 June 2017

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment Provision (d)	
	(RMB in millions, unless specified)					
Operating profit	22,560	1,408	(5,619)	115	1,572	20,036
Profit for the period	18,254	1,553	(5,691)	472	1,899	16,487
Profit attributable to equity holders	18,231	1,492	(5,670)	439	1,899	16,391
EPS (RMB per share)						
- basic	1.939					1.743
- diluted	1.914					1.721
Operating margin	40%					35%
Net margin	32%					29%

Unaudited 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)	
	(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	(11,798)	1,344	3,286	39,629
Profit attributable to equity holders	41,157	4,063	(11,752)	1,274	3,287	38,029
EPS (RMB per share)						
- basic	4.363					4.031
- diluted	4.303					3.976
Operating margin	36%					32%
Net margin	29%					27%

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

Note:

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

Liquidity and Financial Resources

Our net debt positions as at 30 June 2018 and 31 March 2018 are as follows:

	Unaudited 30 June 2018	Unaudited 31 March 2018
	(RMB in millions)	
Cash and cash equivalents	104,623	117,072
Term deposits and others	<u>29,553</u>	<u>25,454</u>
	134,176	142,526
Borrowings	(105,985)	(96,732)
Notes payable	<u>(63,492)</u>	<u>(60,327)</u>
Net debt	<u>(35,301)</u>	<u>(14,533)</u>
Fair value of our stakes in listed investee companies (excluding subsidiaries)	<u>239,690</u>	<u>212,616</u>

As at 30 June 2018, the Group had net debt of RMB35,301 million. The sequential increase in indebtedness primarily reflected payments for M&A initiatives and media content, as well as payment of our final dividend for the year ended 31 December 2017, partly offset by free cash flow generation.

For the second quarter of 2018, the Group had free cash flow of RMB15,374 million. This was a result of net cash flows generated from operating activities of RMB21,578 million, offset by payments for capital expenditure of RMB6,204 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018

		Unaudited Three months ended 30 June 2018		Unaudited Six months ended 30 June 2018	
	Note	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
Value-added services		42,069	36,804	88,946	71,912
Online advertising		14,110	10,148	24,799	17,036
Others		17,496	9,654	33,458	17,210
		73,675	56,606	147,203	106,158
Cost of revenues	4	(39,229)	(28,300)	(75,715)	(52,409)
Gross profit		34,446	28,306	71,488	53,749
Interest income		1,072	959	2,137	1,767
Other gains, net	3	2,506	5,125	10,091	8,316
Selling and marketing expenses	4	(6,360)	(3,660)	(11,930)	(6,818)
General and administrative expenses	4	(9,857)	(8,170)	(19,287)	(15,182)
Operating profit		21,807	22,560	52,499	41,832
Finance costs, net		(1,151)	(834)	(1,805)	(1,525)
Share of profit of associates and joint ventures		1,526	498	1,207	123
Profit before income tax		22,182	22,224	51,901	40,430
Income tax expense	5	(3,602)	(3,970)	(9,348)	(7,628)
Profit for the period		18,580	18,254	42,553	32,802

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2018	2017	2018	2017
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Attributable to:					
	Equity holders of the Company	17,867	18,231	41,157	32,707
	Non-controlling interests	<u>713</u>	<u>23</u>	<u>1,396</u>	<u>95</u>
		<u>18,580</u>	<u>18,254</u>	<u>42,553</u>	<u>32,802</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
	- basic	6	<u>1.893</u>	<u>1.939</u>	<u>4.363</u>
	- diluted	6	<u>1.868</u>	<u>1.914</u>	<u>4.303</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018**

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	<u>18,580</u>	<u>18,254</u>	<u>42,553</u>	<u>32,802</u>
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive (loss)/income of associates and joint ventures	(123)	66	(28)	177
Net gains from changes in fair value of available-for-sale financial assets	—	10,190	—	17,416
Transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	(1,832)
Currency translation differences	5,579	(3,232)	200	(4,217)
Other fair value gains/(losses)	332	(162)	1,193	(103)
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Net (losses)/gains from changes in fair value of financial assets at fair value through other comprehensive income	(535)	—	535	—
Other fair value losses	<u>(72)</u>	<u>(47)</u>	<u>(113)</u>	<u>(390)</u>
	<u>5,181</u>	<u>6,815</u>	<u>1,787</u>	<u>11,051</u>
Total comprehensive income for the period	<u>23,761</u>	<u>25,069</u>	<u>44,340</u>	<u>43,853</u>
Attributable to:				
Equity holders of the Company	22,636	25,063	42,780	43,780
Non-controlling interests	<u>1,125</u>	<u>6</u>	<u>1,560</u>	<u>73</u>
	<u>23,761</u>	<u>25,069</u>	<u>44,340</u>	<u>43,853</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

		Unaudited	Audited
		30 June	31 December
		2018	2017
	Note	RMB' Million	RMB' Million
ASSETS			
Non-current assets			
Property, plant and equipment		30,814	23,597
Construction in progress		3,740	3,163
Investment properties		756	800
Land use rights		6,846	5,111
Intangible assets		46,729	40,266
Investments in associates	8	152,802	113,779
Investments in redeemable instruments of associates	1	–	22,976
Investments in joint ventures		6,618	7,826
Financial assets at fair value through profit or loss	1,9	121,655	–
Financial assets at fair value through other comprehensive income	1,10	66,956	–
Available-for-sale financial assets	1	–	127,218
Prepayments, deposits and other assets		14,301	11,173
Other financial assets	1	2,568	5,159
Deferred income tax assets		11,172	9,793
Term deposits		<u>–</u>	<u>5,365</u>
		<u>464,957</u>	<u>376,226</u>
Current assets			
Inventories		306	295
Accounts receivable	11	21,558	16,549
Prepayments, deposits and other assets		23,499	17,110
Other financial assets	1	394	465
Financial assets at fair value through profit or loss	1,9	5,782	–
Term deposits		23,638	36,724
Restricted cash		2,051	1,606
Cash and cash equivalents		<u>104,623</u>	<u>105,697</u>
		<u>181,851</u>	<u>178,446</u>
Total assets		<u><u>646,808</u></u>	<u><u>554,672</u></u>

		Unaudited	Audited
		30 June	31 December
		2018	2017
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		25,215	22,204
Shares held for share award schemes		(4,184)	(3,970)
Other reserves		17,204	35,158
Retained earnings		<u>256,551</u>	<u>202,682</u>
		294,786	256,074
Non-controlling interests		<u>25,956</u>	<u>21,019</u>
Total equity		<u>320,742</u>	<u>277,093</u>
LIABILITIES			
Non-current liabilities			
Borrowings	14	77,876	82,094
Notes payable	15	49,433	29,363
Long-term payables		5,843	3,862
Other financial liabilities		1,618	2,154
Deferred income tax liabilities		9,097	5,975
Deferred revenue		<u>3,325</u>	<u>2,391</u>
		<u>147,192</u>	<u>125,839</u>
Current liabilities			
Accounts payable	13	60,838	50,085
Other payables and accruals		26,731	29,433
Borrowings	14	28,109	15,696
Notes payable	15	14,059	4,752
Current income tax liabilities		7,485	8,708
Other tax liabilities		825	934
Deferred revenue		<u>40,827</u>	<u>42,132</u>
		<u>178,874</u>	<u>151,740</u>
Total liabilities		<u>326,066</u>	<u>277,579</u>
Total equity and liabilities		<u>646,808</u>	<u>554,672</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Balance at 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 (Note 1)	—	—	—	(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

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 (Note 7)	-	-	-	-	(6,776)	(6,776)	(432)	(7,208)
Non-controlling interests arising from business combination	-	-	-	-	-	-	988	988
Disposal of a subsidiary	-	-	-	-	-	-	(34)	(34)
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	243	-	(234)	-	9	(110)	(101)
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>

Unaudited

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Unaudited	
	Six months ended	
	30 June	
	2018	2017
	RMB' Million	RMB' Million
Net cash flows generated from operating activities	41,403	47,082
Net cash flows used in investing activities	(72,896)	(50,333)
Net cash flows generated from financing activities	<u>30,123</u>	<u>2,590</u>
Net decrease in cash and cash equivalents	(1,370)	(661)
Cash and cash equivalents at beginning of the period	105,697	71,902
Exchange gains/(losses) on cash and cash equivalents	<u>296</u>	<u>(940)</u>
Cash and cash equivalents at end of the period	<u>104,623</u>	<u>70,301</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	44,058	31,527
Term deposits and highly liquid investments with initial terms within three months	<u>60,565</u>	<u>38,774</u>
	<u>104,623</u>	<u>70,301</u>

Note:

1 General information, basis of preparation and presentation

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

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

The condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2018, 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 “Interim Financial Information”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information has been prepared in accordance with 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 2017, which have been prepared in accordance with IFRS, as set out in the 2017 annual report of the Company dated 21 March 2018 (the “2017 Financial Statements”).

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2017 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 and derivative financial instruments, which are carried at fair values.

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

Amendments to IFRS effective for the financial year ending 31 December 2018 do not have a material impact on the Group’s Interim Financial Information except IFRS 9 “Financial Instruments”, details of which are set out below:

The Group has adopted IFRS 9 on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under IFRS 9, comparative figures are not required to be restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

The accounting policies were changed to comply with IFRS 9. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

At 1 January 2018	AFS	RCPS	OFA	FVPL	FVOCI	Total
	RMB'	RMB'	RMB'	RMB'	RMB'	RMB'
	Million	Million	Million	Million	Million	Million
Opening balance – IAS 39	127,218	22,976	5,624	–	–	155,818
Reclassification of AFS to FVPL	(68,703)	–	–	68,703	–	–
Reclassification of AFS to FVOCI	(58,515)	–	–	–	58,515	–
Reclassification of RCPS to FVPL	–	(22,976)	–	22,976	–	–
Reclassification of OFA to FVPL	–	–	(3,818)	3,818	–	–
Opening balance – IFRS 9	<u>–</u>	<u>–</u>	<u>1,806</u>	<u>95,497</u>	<u>58,515</u>	<u>155,818</u>

The main effects resulting from this reclassification on the Group's equity are as follows:

At 1 January 2018	Effect on	Effect on	Effect on
	AFS	FVOCI	retained
	reserves	reserve	earnings
	RMB' Million	RMB' Million	RMB' Million
Opening balance – IAS 39	31,152	–	202,682
Reclassification of AFS to FVPL	(16,210)	–	16,210
Reclassification of AFS to FVOCI	<u>(14,942)</u>	<u>14,942</u>	<u>–</u>
Total impact	<u>(31,152)</u>	<u>14,942</u>	<u>16,210</u>
Opening balance – IFRS 9	<u>–</u>	<u>14,942</u>	<u>218,892</u>

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities.

2 Segment information

The Group has the following reportable segments for the three and six months ended 30 June 2018 and 2017:

- VAS;
- Online advertising; and
- Others.

“Others” segment primarily comprises payment related services for individual and corporate users, cloud services and other services.

There were no material inter-segment sales during the three and six months ended 30 June 2018 and 2017. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three and six months ended 30 June 2018 and 2017 is as follows:

	Unaudited			
	Three months ended 30 June 2018			
	VAS	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>42,069</u>	<u>14,110</u>	<u>17,496</u>	<u>73,675</u>
Gross profit	<u>24,816</u>	<u>5,272</u>	<u>4,358</u>	<u>34,446</u>
Depreciation	457	294	830	1,581
Amortisation	<u>2,854</u>	<u>3,178</u>	<u>15</u>	<u>6,047</u>

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

Unaudited
Six months ended 30 June 2018

	VAS	Online advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>88,946</u>	<u>24,799</u>	<u>33,458</u>	<u>147,203</u>
Gross profit	<u>54,473</u>	<u>8,605</u>	<u>8,410</u>	<u>71,488</u>
Depreciation	891	529	1,505	2,925
Amortisation	<u>5,164</u>	<u>6,142</u>	<u>73</u>	<u>11,379</u>

Unaudited
Six months ended 30 June 2017

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

3 Other gains, net

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018 RMB'Million	2017 RMB'Million	2018 RMB'Million	2017 RMB'Million
Gains on disposals and deemed disposals of investee companies	725	3,132	2,297	5,860
Fair value gains on FVPL (Note)	2,946	—	8,988	—
Fair value gains on other financial instruments	339	2,487	513	2,506
Impairment provision for investee companies and intangible assets from acquisitions	(2,564)	(1,572)	(3,200)	(2,075)
Subsidies and tax rebates	704	1,014	1,928	1,818
Dividend income	274	97	319	773
Donation to Tencent Charity Funds	—	—	(570)	(550)
Others	82	(33)	(184)	(16)
	<u>2,506</u>	<u>5,125</u>	<u>10,091</u>	<u>8,316</u>

Note:

The fair value gains on FVPL during the three and six months ended 30 June 2018 comprised of net gains of approximately RMB2,946 million and RMB8,988 million (Note 9), respectively, as a result of increases in valuations of certain FVPL.

4 Expenses by nature

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018 RMB'Million	2017 RMB'Million	2018 RMB'Million	2017 RMB'Million
Employee benefits expenses (a)	10,363	8,594	19,938	16,017
Content costs (excluding amortisation of intangible assets) (b)	8,647	7,172	16,478	13,763
Channel and distribution costs (b)	7,684	5,105	15,537	9,418
Bandwidth and server custody fees	3,737	2,660	7,148	5,091
Promotion and advertising expenses	5,176	2,723	9,750	5,048
Operating lease rentals in respect of office buildings	399	319	754	625
Travelling and entertainment expenses	334	246	607	440
Amortisation of intangible assets (c)	6,262	4,793	11,803	8,432
Depreciation of property, plant and equipment	1,911	1,151	3,567	2,227

Note:

(a) During the three and six months ended 30 June 2018, the Group incurred expenses for the purpose of research and development of approximately RMB5,722 million and RMB10,728 million, respectively (three and six months ended 30 June 2017: approximately RMB4,241 million and RMB7,838 million, respectively), which mainly comprised employee benefits expenses.

No significant development expenses had been capitalised for the three and six months ended 30 June 2018 and 2017.

(b) The comparative figures of certain costs have been reclassified to better reflect the nature of the costs and in conformity to current period's classification.

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

5 Income Tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and six months ended 30 June 2018 and 2017.

(b) Hong Kong profit tax

Hong Kong profit 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 2018 and 2017.

(c) PRC corporate income tax

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 PRC for the three and six months ended 30 June 2018 and 2017. The general PRC CIT rate is 25% for the three and six months ended 30 June 2018 and 2017.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprises, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the three and six months ended 30 June 2018 and 2017. Moreover, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise shall file its status with tax authorities for review and record in accordance with the relevant requirements at the time of final tax settlement each year in order to enjoy the preferential tax rate of 10%. The PRC CIT for the relevant subsidiaries of the Company filing for this preferential tax treatment has been provided for at their respective prevailing tax rates (i.e. 15% or 25%) during the period. Upon receipt of notification, the relevant subsidiaries of the Company will be entitled to CIT rate of 10% and corresponding tax adjustments will be accounted for.

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

(d) Corporate income tax in other countries

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 2018 and 2017 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 36%.

(e) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to 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 the Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

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

The income tax expense of the Group for the three and six months ended 30 June 2018 and 2017 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2018	2017	2018	2017
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current income tax	4,049	3,824	8,538	7,516
Deferred income tax	<u>(447)</u>	<u>146</u>	<u>810</u>	<u>112</u>
	<u>3,602</u>	<u>3,970</u>	<u>9,348</u>	<u>7,628</u>

6 Earnings per share

(a) Basic

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018	2017	2018	2017
Profit attributable to equity holders of the Company (RMB' Million)	<u>17,867</u>	<u>18,231</u>	<u>41,157</u>	<u>32,707</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,438</u>	<u>9,403</u>	<u>9,434</u>	<u>9,400</u>
Basic EPS (RMB per share)	<u>1.893</u>	<u>1.939</u>	<u>4.363</u>	<u>3.480</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).

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 2018 and 2017, 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		Six months ended	
	30 June		30 June	
	2018	2017	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	<u>17,867</u>	<u>18,231</u>	<u>41,157</u>	<u>32,707</u>
Weighted average number of ordinary shares in issue (million shares)	9,438	9,403	9,434	9,400
Adjustments for share options and awarded shares (million shares)	<u>125</u>	<u>121</u>	<u>130</u>	<u>120</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,563</u>	<u>9,524</u>	<u>9,564</u>	<u>9,520</u>
Diluted EPS (RMB per share)	<u>1.868</u>	<u>1.914</u>	<u>4.303</u>	<u>3.436</u>

7 Dividends

A final dividend in respect of the year ended 31 December 2017 of HKD0.88 per share (2016: HKD0.61 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2018 and approved by the shareholders of the Company at 2018 AGM. Such dividend amounting to RMB6,776 million (final dividend for 2016: RMB5,052 million) was paid before 30 June 2018.

The Board did not declare any interim dividend for the six months ended 30 June 2018 and 2017.

8 Investments in associates

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Investments in associates		
- Listed entities (Note)	67,214	60,935
- Unlisted entities	<u>85,588</u>	<u>52,844</u>
	<u>152,802</u>	<u>113,779</u>

Note:

As at 30 June 2018, the fair value of the investments in associates which are listed entities was RMB162,258 million (31 December 2017: RMB156,968 million).

Movement of investments in associates is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'Million	RMB'Million
At beginning of period	113,779	70,042
Additions((a), (b), (c), (d) and (e))	31,976	5,234
Deemed disposal gains	1,185	2,400
Share of profit of associates	1,127	97
Share of other changes in net assets of associates	577	-
Share of other comprehensive income of associates	(26)	177
Dividends	(226)	(4)
Transfers (f)	5,020	265
Disposals	(661)	(79)
Impairment provision (g)	(959)	(790)
Currency translation differences	<u>1,010</u>	<u>(3,140)</u>
At end of period	<u>152,802</u>	<u>74,202</u>

Note:

- (a) During the six months ended 30 June 2018, the Group made additional investments in an existing associate which is principally engaged in eCommerce business in Asia, to further subscribe for its certain equity interests at a total consideration of USD1,019 million (equivalent to approximately RMB6,462 million). As at 30 June 2018, the Group's equity interests in this investee company is approximately 18% on an outstanding basis.
- (b) During the six months ended 30 June 2018, the Group acquired approximately 28% of equity interests on an outstanding basis in an existing investee company recorded as FVPL which is engaged in media and entertainment business, at a cash consideration of approximately RMB3,317 million. As a result, the investment in this investee company was re-designated from FVPL to investment in an associate. The Group further acquired certain equity interests in it, at a cash consideration of approximately RMB1,415 million. As at 30 June 2018, the Group's equity interests in this investee company is approximately 44% on an outstanding basis.
- (c) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an existing associate, which is principally engaged in media and entertainment business, to further subscribe for its certain equity interests at a cash consideration of approximately USD631 million (equivalent to approximately RMB3,998 million). As at 30 June 2018, the Group's equity interest in this investee company is approximately 43% on an outstanding basis.
- (d) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company which is principally engaged in online game business, to acquire approximately 12% of its equity interests, on an outstanding basis, at a cash consideration of approximately RMB2,985 million, which is accounted for as an associate.
- (e) The Group also acquired certain other associates and made additional investments in existing associates with an aggregate amount of RMB13,799 million during the six months ended 30 June 2018.
- (f) Transfers mainly comprised re-designation of several investments from FVPL to investments in associates as a result of change in nature of these investments, including an investment in an investee company re-designated as investment in associate due to the conversion of the redeemable instruments into ordinary shares amounting to RMB4,671 million upon its initial public offering.
- (g) During the six months ended 30 June 2018, the Group made an aggregate impairment provision of RMB959 million (six months ended 30 June 2017: RMB790 million) against the carrying amounts of certain investments in associates. The impairment loss mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

9 Financial assets at fair value through profit or loss

FVPL include the following:

	Unaudited 30 June 2018 RMB' Million
Included in non-current assets:	
Investments in listed entities	11,247
Investments in unlisted entities	105,900
Others	<u>4,508</u>
	<u>121,655</u>
Included in current assets:	
Treasury investments and others	<u>5,782</u>
	<u><u>127,437</u></u>

Movement of FVPL is analysed as follows:

	Unaudited Six months ended 30 June 2018 RMB' Million
At beginning of period	—
Adjustment on adoption of IFRS 9 (Note 1)	95,497
Additions ((a), (b), (c), (d) and (e))	33,444
Transfers (Note 8(f))	(5,205)
Changes in fair value (Note 3)	8,988
Disposals (f)	(7,434)
Currency translation differences	<u>2,147</u>
At end of period	<u><u>127,437</u></u>

Note:

- (a) During the six months ended 30 June 2018, the Group entered into a strategy investment agreement with an investee company, which is a commercial property company located in the PRC, to acquire approximately 4% of its equity interest on an outstanding basis. As at 30 June 2018, the transaction was partially completed, and the Group had acquired approximately 2% of equity interest at a consideration of HKD5,252 million (equivalent to approximately RMB4,216 million) and this investment is classified as FVPL.
- (b) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company, which is principally engaged in the media and entertainment business, to subscribe for approximately 35% of its equity interests, on an outstanding basis, at a total consideration of USD462 million (equivalent to approximately RMB2,922 million).
- (c) During the six months ended 30 June 2018, the Group disposed of its entire equity interest in an investee company, to another investee company of the Group at a total consideration of USD539 million (equivalent to approximately RMB3,401 million) comprised of cash and its equity interests. The acquirer is principally engaged in the provision of Internet-related services.
- (d) During the six months ended 30 June 2018, the Group made additional investment in an existing investee company which is principally engaged in the media and entertainment business, to further subscribe for its certain equity interests at a total consideration of USD400 million (equivalent to approximately RMB2,536 million). As at 30 June 2018, the Group's equity interests in this investee company is approximately 14% on an outstanding basis.
- (e) During the six months ended 30 June 2018, the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB20,876 million in listed and unlisted entities mainly operated in the United States, the PRC and other Asian countries. These companies are principally engaged in games, entertainment, technology and other Internet-related services.
- (f) During the six months ended 30 June 2018, the Group disposed of certain investments, which are mainly engaged in the provision of Internet-related services.

10 Financial assets at fair value through other comprehensive income

FVOCI include the following:

	Unaudited 30 June 2018 RMB'Million
Equity investments in listed entities	
- United States	57,048
- Mainland China	5,920
- France	<u>3,217</u>
	<u>66,185</u>
Others	<u>771</u>
	<u><u>66,956</u></u>

Movement of FVOCI is analysed as follows:

	Unaudited Six months ended 30 June 2018 RMB'Million
At beginning of period	—
Adjustment on adoption of IFRS 9 (Note 1)	58,515
Additions ((a), (b), (c), (d) and (e))	14,044
Changes in fair value	438
Disposals (f)	(6,341)
Currency translation differences	<u>300</u>
At end of period	<u><u>66,956</u></u>

Note:

- (a) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company, which is principally engaged in retail business, to acquire approximately 5% of its equity interests, on an outstanding basis, at a total consideration of RMB4,216 million.

- (b) During the six months ended 30 June 2018, the Group made additional investment in an existing investee company, which is principally engaged in Internet-related business, to further acquire approximately 3% of its equity interests, on an outstanding basis, at a total consideration of USD570 million (equivalent to approximately RMB3,712 million).
- (c) During the six months ended 30 June 2018, the Group entered into a share purchase agreement with an investee company, which is principally engaged in game business, to acquire approximately 5% of its equity interests, on an outstanding basis, at a total consideration of EUR371 million (equivalent to approximately RMB2,900 million).
- (d) During the six months ended 30 June 2018, the Group made additional investment in an existing investee company, which is principally engaged in media and entertainment business, to further acquire its certain equity interests, at a total consideration of USD395 million (equivalent to approximately RMB2,508 million).
- (e) During the six months ended 30 June 2018, the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB708 million in listed entities mainly operated in the PRC, which are principally engaged in technology services.
- (f) During the six months ended 30 June 2018, the Group partially disposed of certain listed investments, with total gains of RMB3,313 million on disposals of the FVOCI transferred from other reserves to retained earnings.

11 Accounts receivable

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

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
0 - 30 days	6,311	4,399
31 - 60 days	6,111	6,394
61 - 90 days	3,373	2,259
Over 90 days	<u>5,763</u>	<u>3,497</u>
	<u>21,558</u>	<u>16,549</u>

Receivable balances as at 30 June 2018 and 31 December 2017 mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators.

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

12 Share option and share award schemes

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

In respect of the Post-IPO Option Scheme III and 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 Listing Rules. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 10-year period for the Post-IPO Option Scheme III and a 7-year period for the Post-IPO Option Scheme IV after the date of grant of option.

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 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	HKD131.47	<u>(37,139)</u>	—	<u>—</u>	HKD272.36	<u>(91,490)</u>	<u>(128,629)</u>
At 30 June 2018	HKD184.38	<u>52,302,870</u>	—	<u>—</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>—</u>	—	<u>—</u>	<u>22,212,605</u>
At 1 January 2017	HKD120.95	31,247,436	HKD31.70	2,500,000	—	—	33,747,436
Granted	HKD225.44	28,526,215	—	—	—	—	28,526,215
Exercised	HKD34.84	(2,718,805)	—	—	—	—	(2,718,805)
Lapsed	HKD116.62	<u>(75,220)</u>	—	<u>—</u>	—	<u>—</u>	<u>(75,220)</u>
At 30 June 2017	HKD177.38	<u>56,979,626</u>	HKD31.70	<u>2,500,000</u>	—	<u>—</u>	<u>59,479,626</u>
Exercisable as at 30 June 2017	HKD114.53	<u>13,108,559</u>	HKD31.70	<u>1,250,000</u>	—	<u>—</u>	<u>14,358,559</u>

During the six months ended 30 June 2018, 3,215,800 options were granted to one director of the Company (six months ended 30 June 2017: 5,250,000 options were granted to one director of the Company).

(b) Share award schemes

The Company has adopted the Share Award Schemes as of 30 June 2018, 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 2018 and 2017 are as follows:

	No. of awarded shares	
	Six months ended 30 June	
	2018	2017
At beginning of period	63,636,254	86,365,812
Granted	3,766,965	4,555,895
Lapsed	(1,181,802)	(1,622,414)
Vested and transferred	(7,806,084)	(11,131,651)
At end of period	<u>58,415,333</u>	<u>78,167,642</u>
Vested but not transferred as at the end of period	<u>89,313</u>	<u>193,648</u>

During the six months ended 30 June 2018, 39,500 awarded shares were granted to four independent non-executive directors of the Company (six months ended 30 June 2017: 60,000 awarded shares were granted to four independent non-executive directors of the Company).

13 Accounts payable

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

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
0 - 30 days	45,040	38,420
31 - 60 days	4,382	3,030
61 - 90 days	4,751	2,050
Over 90 days	<u>6,665</u>	<u>6,585</u>
	<u>60,838</u>	<u>50,085</u>

14 Borrowings

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	72,591	76,326
Non-current portion of long-term RMB bank borrowings, - unsecured (a)	4,444	4,459
- secured (a)	—	475
Non-current portion of long-term HKD bank borrowings, unsecured (a)	841	834
	<u>77,876</u>	<u>82,094</u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	5,293	1,307
HKD bank borrowings, unsecured (b)	17,547	14,293
Current portion of long-term USD bank borrowings, unsecured (a)	4,764	66
Current portion of long-term RMB bank borrowings, - unsecured (a)	30	30
- secured (a)	475	—
	<u>28,109</u>	<u>15,696</u>
	<u>105,985</u>	<u>97,790</u>

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,691 million (31 December 2017: USD11,691 million), RMB4,949 million (31 December 2017: RMB4,964 million) and HKD1,000 million (31 December 2017: HKD1,000 million), respectively. Applicable interest rates are at LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings (31 December 2017: LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings) per annum.

- (b) The aggregate principal amounts of short-term USD bank borrowings and short-term HKD bank borrowings were USD800 million (31 December 2017: USD200 million) and HKD20,850 million (31 December 2017: HKD17,133 million), respectively. These short-term borrowings were carried at LIBOR/HIBOR + 0.50% ~ 0.55% (31 December 2017: LIBOR/HIBOR + 0.50% ~ 0.55%) per annum.

15 Notes payable

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	46,743	26,697
Non-current portion of long-term HKD notes payable	<u>2,690</u>	<u>2,666</u>
	<u>49,433</u>	<u>29,363</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	13,218	3,919
Current portion of long-term HKD notes payable	<u>841</u>	<u>833</u>
	<u>14,059</u>	<u>4,752</u>
	<u><u>63,492</u></u>	<u><u>34,115</u></u>

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD9,100 million (31 December 2017: USD4,700 million) and HKD4,200 million (31 December 2017: HKD4,200 million), respectively. The interest rate range of the notes payable is 2.30% ~ 4.70% and 3-month USD LIBOR + 0.605% (31 December 2017: 2.30% ~ 4.70%) per annum.

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

On 19 January 2018, the Company issued four tranches of senior notes under the Global Medium Term Note Programme with aggregate principal amounts of USD5 billion set out below:

	Amount (USD'Million)		Interest Rate (per annum)	Due
2023 Notes	1,000		2.985%	2023
2023 Floating Rate Notes	500	3-month USD LIBOR + 0.605%		2023
2028 Notes	2,500		3.595%	2028
2038 Notes	<u>1,000</u>		3.925%	2038
	<u>5,000</u>			

In March 2018, the notes payable with an aggregate principal amount of USD600 million issued in September 2012 reached their maturity and were repaid in full by the Group.

16 Event occurring after the balance sheet date

(a) Proposed spin-off of Tencent Music Entertainment Group

The Company has submitted a proposal to the Stock Exchange pursuant to Practice Note 15 in relation to the proposed spin-off by way of a separate listing of its online music entertainment business operated by its majority-owned subsidiary, Tencent Music Entertainment Group, a leading online music entertainment platform in China, on a recognised stock exchange in the United States through a registered public offering (the “Proposed Spin-off”), and that the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

(b) Proposed acquisition of equity interests from shareholders of an associate of the Company

On 13 August 2018, China Literature entered into a share purchase agreement to purchase all the shares from the shareholders (including the Company) of an associate of the Company (Note 8(b)), which is principally engaged in production and distribution of television series, web series and films, at an aggregate maximum consideration of approximately RMB15.5 billion, comprising approximately RMB5.3 billion payable to the Company and approximately RMB10.2 billion payable to other shareholders. The consideration will be settled by a combination of cash and new shares to be issued by China Literature, subject to the terms and conditions stipulated in the share purchase agreement. As at the date of this announcement, the proposed acquisition has not been completed.

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 2018.

Employee and Remuneration Policies

As at 30 June 2018, the Group had 48,684 employees (30 June 2017: 40,678). 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 2018 was RMB19,938 million (for the six months ended 30 June 2017: RMB16,017 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 2018. 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.

Compliance with the Corporate Governance Code

Save as disclosed in the corporate governance report in the 2017 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 2018 to 30 June 2018.

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

APPRECIATION

On behalf of the Board, I would like to thank our staff and management team for their professionalism, dedication and hard work. I would also like to express our sincere gratitude to our shareholders and stakeholders for their continuous support to the Group. We believe that our unwavering commitment to building a healthy ecosystem around our core capabilities will enhance the user experience and will further create value for our shareholders.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 15 August 2018

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

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

Jacobus Petrus (Koos) Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:

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

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

DEFINITION

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

Term	Definition
“2018 AGM”	the annual general meeting of the Company held on 16 May 2018
“AFS”	available-for-sale financial assets
“AI”	artificial intelligence
“ARPU”	average revenue per user
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“China Literature”	China Literature Limited, a non-wholly owned subsidiary of the Company, which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“CIT”	corporate income tax
“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
“eCPM”	effective cost per mille
“EPS”	earnings per share
“EUR”	the lawful currency of European Union

“FVOCI”	financial assets at fair value through other comprehensive income
“FVPL”	financial assets at fair value through profit or loss
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong InterBank Offered Rate
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MMORPG”	Massive Multiplayer Online Role Playing Game
“OFA”	other financial assets
“PC”	personal computer
“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
“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
“RCPS”	investments in redeemable instruments of associates
“RMB”	the lawful currency of the PRC
“RPG”	role playing game
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Funds”	charity funds established by the Group
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services