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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 2016

The Board is pleased to announce the unaudited consolidated results of the Group for the three and six months ended 30 June 2016. 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		Year- on-year change
	Six months ended		
	30 June	30 June	
	2016	2015	
	(RMB in millions, unless specified)		
Revenues	67,686	45,828	48%
Gross profit	39,045	27,872	40%
Operating profit	27,727	19,408	43%
Profit for the period	20,148	14,326	41%
Profit attributable to equity holders of the Company	19,920	14,197	40%
Non-GAAP profit attributable to equity holders of the Company	21,351	15,177	41%
EPS (RMB per share)			
- basic	2.128	1.528	39%
- diluted	2.102	1.512	39%
Non-GAAP EPS (RMB per share)			
- basic	2.280	1.634	40%
- diluted	2.253	1.616	39%

	Unaudited				
	Three months ended				
	30 June	30 June	Year-	31 March	Quarter-
	2016	2015	on-year	2016	on-quarter
			change		change
	(RMB in millions, unless specified)				
Revenues	35,691	23,429	52%	31,995	12%
Gross profit	20,456	14,438	42%	18,589	10%
Operating profit	14,329	10,036	43%	13,398	7%
Profit for the period	10,880	7,396	47%	9,268	17%
Profit attributable to equity holders of the Company	10,737	7,314	47%	9,183	17%
Non-GAAP profit attributable to equity holders of the Company	11,319	7,975	42%	10,032	13%
EPS (RMB per share)					
- basic	1.146	0.787	46%	0.981	17%
- diluted	1.133	0.778	46%	0.970	17%
Non-GAAP EPS (RMB per share)					
- basic	1.208	0.858	41%	1.072	13%
- diluted	1.194	0.849	41%	1.059	13%

BUSINESS REVIEW AND OUTLOOK

Company Strategic Highlights

In recent months, we have conducted several initiatives to develop our online games and digital content businesses, such as:

- Growing our digital music business via integrating QQ Music with CMC, which operates another leading music streaming platform. We believe there is tremendous growth potential in the China digital music industry, and look forward to the integrated operations facilitating users to discover more music, artists to reach out to more fans, and the music industry to create new products and business models.
- Deepening our presence in mobile games via leading a consortium to acquire a majority equity stake in Supercell, the maker of globally popular titles such as Clash of Clans and Clash Royale. Supercell's founding team will continue to manage the company independently, enhancing their existing games and developing new games, and leveraging Tencent's platforms and expertise to expand in China.
- Reinforcing our online video business' upstream presence via further investing in film/TV series studios and in our own production projects.
- Developing our online literature services via working closely with industry peers to combat piracy, so as to provide more sustainable and healthy revenue for authors and for the industry.

During the quarter we also made organic progress around our other strategic priorities, such as building out our mobile ecosystem for Weixin and Mobile QQ users, enhancing our enterprise communications products, expanding our cloud services capabilities and customer base, and facilitating consumers to use our payment solutions for merchant transactions.

Value-Added Services

In the second quarter of 2016, our social networks business sustained strong revenue growth as we increased virtual item sales and as our digital content subscription services became more popular.

For PC client games, we generated high single digit year-on-year revenue growth, with increased contributions from existing titles in genres such as sports, music, and action RPG, as well as from newer titles in genres such as RPG and shooter.

For smart phone games, we achieved approximately RMB9.6 billion revenue¹ in the second quarter, representing 114% year-on-year revenue growth, with increased contributions from our major PVP titles, as well as new RPG titles.

Online Advertising

During the second quarter of 2016, our online media platform traffic and advertising revenue continued to grow, with most of our traffic and about 80% of revenue generated on mobile platforms. Our Tencent Video views increased, supported by popular content such as our exclusive NBA rights in China, where unique viewers more than doubled online for the 2015-2016 season versus the 2014-2015 season, when the rights were split between multiple platforms. Our self-service tools enabled regional advertisers to purchase targeted traffic in low-tier cities on Weixin Moments, and we added new advertising formats, such as carousels on Qzone.

¹ Including smart phone games revenue attributable to our social networks business.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2016 Compared to Second Quarter of 2015

The following table sets forth the comparative figures for the second quarter of 2016 and the second quarter of 2015:

	Unaudited	
	Three months ended	
	30 June 2016	30 June 2015
	(RMB in millions)	
Revenues	35,691	23,429
Cost of revenues	<u>(15,235)</u>	<u>(8,991)</u>
Gross profit	20,456	14,438
Interest income	626	598
Other gains, net	911	612
Selling and marketing expenses	(2,365)	(1,601)
General and administrative expenses	<u>(5,299)</u>	<u>(4,011)</u>
Operating profit	14,329	10,036
Finance costs, net	(377)	(341)
Share of losses of associates and joint ventures	<u>(292)</u>	<u>(452)</u>
Profit before income tax	13,660	9,243
Income tax expense	<u>(2,780)</u>	<u>(1,847)</u>
Profit for the period	<u>10,880</u>	<u>7,396</u>
Attributable to:		
Equity holders of the Company	10,737	7,314
Non-controlling interests	<u>143</u>	<u>82</u>
	<u>10,880</u>	<u>7,396</u>
Non-GAAP profit attributable to equity holders of the Company	<u>11,319</u>	<u>7,975</u>

Revenues. Revenues increased by 52% to RMB35,691 million for the second quarter of 2016 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2016 and the second quarter of 2015:

	Unaudited			
	Three months ended			
	30 June 2016		30 June 2015	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	25,680	72%	18,428	79%
Online advertising	6,532	18%	4,073	17%
Others	3,479	10%	928	4%
Total revenues	<u>35,691</u>	<u>100%</u>	<u>23,429</u>	<u>100%</u>

- Revenues from our VAS business increased by 39% to RMB25,680 million for the second quarter of 2016 on a year-on-year basis. Online games revenues grew by 32% to RMB17,124 million. The increase was primarily driven by contributions from our major PVP and RPG genre smart phone games, and to a lesser extent by several PC games. Social networks revenues increased by 57% to RMB8,556 million. The increase was driven by virtual item sales and revenue growth from subscription services, especially those for digital content services such as video, music, and literature.
- Revenues from our online advertising business increased by 60% to RMB6,532 million for the second quarter of 2016 on a year-on-year basis. Performance-based advertising revenues grew by 80% to RMB3,697 million, mainly reflecting growth in performance advertising revenues from Weixin Moments, our mobile news app, and Weixin Official Accounts. Brand display advertising revenues increased by 41% to RMB2,835 million, primarily driven by revenue growth from Tencent News and Tencent Video.
- Revenues from our others businesses increased by 275% to RMB3,479 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly due to higher revenues from our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 69% to RMB15,235 million for the second quarter of 2016 on a year-on-year basis. The increase mainly reflected greater sharing and content costs, costs of payment related services, and channel costs, due to our changing revenue mix. As a percentage of revenues, cost of revenues increased to 43% for the second quarter of 2016 from 38% for the second quarter of 2015. The following table sets forth our cost of revenues by line of business for the second quarter of 2016 and the second quarter of 2015:

	Unaudited			
	Three months ended			
	30 June 2016		30 June 2015	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	8,550	33%	6,221	34%
Online advertising	3,575	55%	1,961	48%
Others	<u>3,110</u>	89%	<u>809</u>	87%
Total cost of revenues	<u>15,235</u>		<u>8,991</u>	

- Cost of revenues for our VAS business increased by 37% to RMB8,550 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater sharing and content costs, as well as channel costs, as our online games revenues grew.
- Cost of revenues for our online advertising business increased by 82% to RMB3,575 million for the second quarter of 2016 on a year-on-year basis. The increase primarily reflected greater investment in video content, and to lesser extents increased traffic acquisition costs and commission expenses.
- Cost of revenues for our others businesses increased by 284% to RMB3,110 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater costs of payment related services.

Other gains, net. We recorded other gains, net of RMB911 million for the second quarter of 2016, which primarily consisted of net disposal/deemed disposal gains arising from certain investee companies, fair value gains on options we own in an investee company, as well as subsidies and tax rebates, partly offset by impairment provision charges for certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 48% to RMB2,365 million for the second quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater marketing spending as a result of our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for the second quarter of 2016, broadly stable compared to the second quarter of 2015.

General and administrative expenses. General and administrative expenses increased by 32% to RMB5,299 million for the second quarter of 2016 on a year-on-year basis. The increase primarily reflected greater research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses decreased to 15% for the second quarter of 2016 from 17% for the second quarter of 2015.

Finance costs, net. Finance costs, net increased by 11% to RMB377 million for the second quarter of 2016 on a year-on-year basis, mainly due to greater amount of indebtedness.

Income tax expense. Income tax expense increased by 51% to RMB2,780 million for the second quarter of 2016 on a year-on-year basis. The increase primarily reflected greater profit before income tax and the recognition of withholding tax in the second quarter of 2016.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 47% to RMB10,737 million for the second quarter of 2016 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 42% to RMB11,319 million.

Second Quarter of 2016 Compared to First Quarter of 2016

The following table sets forth the comparative figures for the second quarter of 2016 and the first quarter of 2016:

	Unaudited	
	Three months ended	
	30 June 2016	31 March 2016
	(RMB in millions)	
Revenues	35,691	31,995
Cost of revenues	<u>(15,235)</u>	<u>(13,406)</u>
Gross profit	20,456	18,589
Interest income	626	703
Other gains, net	911	506
Selling and marketing expenses	<u>(2,365)</u>	<u>(2,032)</u>
General and administrative expenses	<u>(5,299)</u>	<u>(4,368)</u>
Operating profit	14,329	13,398
Finance costs, net	<u>(377)</u>	<u>(491)</u>
Share of losses of associates and joint ventures	<u>(292)</u>	<u>(1,089)</u>
Profit before income tax	13,660	11,818
Income tax expense	<u>(2,780)</u>	<u>(2,550)</u>
Profit for the period	<u>10,880</u>	<u>9,268</u>
Attributable to:		
Equity holders of the Company	10,737	9,183
Non-controlling interests	<u>143</u>	<u>85</u>
	<u>10,880</u>	<u>9,268</u>
Non-GAAP profit attributable to equity holders of the Company	<u>11,319</u>	<u>10,032</u>

Revenues. Revenues increased by 12% to RMB35,691 million for the second quarter of 2016 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 3% to RMB25,680 million for the second quarter of 2016. Online games revenues were RMB17,124 million for the second quarter of 2016, stable compared to the first quarter of 2016. This primarily reflected revenue growth from our major PVP smart phone games such as Honor of Kings and Cross Fire Mobile, as well as contributions from new RPG smart phone games such as Dragon Ball Z Mobile, JX Mobile and ZhengTu Mobile, largely offset by weaker seasonality for our PC client games. Social networks revenues increased by 9% to RMB8,556 million. The increase was mainly driven by higher revenues from virtual item sales and from digital content subscription services.
- Revenues from our online advertising business increased by 39% to RMB6,532 million for the second quarter of 2016. Performance-based advertising revenues climbed by 46% to RMB3,697 million, mainly due to increased advertising revenues from Weixin Moments and to positive seasonality. Brand display advertising revenues climbed by 31% to RMB2,835 million, primarily due to positive seasonality, increased revenues from Tencent News, and increased revenues from Tencent Video.

Cost of revenues. Cost of revenues increased by 14% to RMB15,235 million for the second quarter of 2016 on a quarter-on-quarter basis. The increase primarily reflected greater costs of payment related services, sharing and content costs, as well as channel costs. As a percentage of revenues, cost of revenues increased to 43% for the second quarter of 2016 from 42% for the first quarter of 2016.

- Cost of revenues for our VAS business was RMB8,550 million for the second quarter of 2016, broadly stable compared to the first quarter of 2016. This primarily reflected greater channel costs, largely offset by a decrease in sharing and content costs.
- Cost of revenues for our online advertising business increased by 35% to RMB3,575 million for the second quarter of 2016. The increase was mainly driven by greater investment in video content and commissions payable to advertising agencies.

Selling and marketing expenses. Selling and marketing expenses increased by 16% to RMB2,365 million for the second quarter of 2016 on a quarter-on-quarter basis. The increase primarily reflected seasonally more advertising and promotional activities in the second quarter than the first quarter, as well as greater marketing spending due to business expansion.

General and administrative expenses. General and administrative expenses increased by 21% to RMB5,299 million for the second quarter of 2016 on a quarter-on-quarter basis. The increase was mainly driven by greater research and development expenses and staff costs.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 17% to RMB10,737 million for the second quarter of 2016 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 13% to RMB11,319 million.

Other Financial Information

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2016	2015	2016	2016	2015
	(RMB in millions, unless specified)				
EBITDA (a)	29,910	20,203	15,581	14,329	10,258
Adjusted EBITDA (a)	31,405	21,405	16,401	15,004	10,899
Adjusted EBITDA margin (b)	46%	47%	46%	47%	47%
Interest expense	971	728	494	477	399
Net cash (c)	24,037	21,663	24,037	27,429	21,663
Capital expenditures (d)	5,610	4,173	1,505	4,105	2,841

Note:

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

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

	Unaudited		Unaudited		
	Six months ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2016	2015	2016	2016	2015
	(RMB in millions, unless specified)				
Operating profit	27,727	19,408	14,329	13,398	10,036
Adjustments:					
Interest income	(1,329)	(1,119)	(626)	(703)	(598)
Other (gains)/losses, net	(1,417)	(1,023)	(911)	(506)	(612)
Depreciation of fixed assets and investment properties	1,776	1,552	907	869	770
Amortisation of intangible assets	3,153	1,385	1,882	1,271	662
EBITDA	29,910	20,203	15,581	14,329	10,258
Equity-settled share-based compensation	1,495	1,202	820	675	641
Adjusted EBITDA	<u>31,405</u>	<u>21,405</u>	<u>16,401</u>	<u>15,004</u>	<u>10,899</u>

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this announcement. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the 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 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 first half of 2016 and 2015, the second quarter of 2016 and 2015, and the first quarter of 2016 to the nearest measures prepared in accordance with IFRS:

Unaudited six months ended 30 June 2016							
	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled 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	27,727	1,495	74	(3,718)	96	2,497	28,171
Profit for the period	20,148	1,880	74	(4,037)	684	2,881	21,630
Profit attributable to equity holders	19,920	1,852	74	(4,033)	665	2,873	21,351
EPS (RMB per share)							
- basic	2.128						2.280
- diluted	2.102						2.253
Operating margin	41%						42%
Net margin	30%						32%

Unaudited six months ended 30 June 2015

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled 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	19,408	1,202	50	(2,326)	106	1,275	19,715
Profit for the period	14,326	1,364	50	(2,238)	598	1,285	15,385
Profit attributable to equity holders	14,197	1,323	48	(2,238)	578	1,269	15,177
EPS (RMB per share)							
- basic	1.528						1.634
- diluted	1.512						1.616
Operating margin	42%						43%
Net margin	31%						34%

Unaudited three months ended 30 June 2016

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled 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	14,329	820	42	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,014	42	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	995	42	(3,247)	317	2,475	11,319
EPS (RMB per share)							
- basic	1.146						1.208
- diluted	1.133						1.194
Operating margin	40%						41%
Net margin	30%						32%

Unaudited three months ended 31 March 2016

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled 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	13,398	675	32	(728)	47	60	13,484
Profit for the period	9,268	866	32	(786)	356	398	10,134
Profit attributable to equity holders	9,183	857	32	(786)	348	398	10,032
EPS (RMB per share)							
- basic	0.981						1.072
- diluted	0.970						1.059
Operating margin	42%						42%
Net margin	29%						32%

Unaudited three months ended 30 June 2015

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled 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	10,036	641	18	(1,487)	56	1,052	10,316
Profit for the period	7,396	720	18	(1,399)	300	1,057	8,092
Profit attributable to equity holders	7,314	699	17	(1,399)	287	1,057	7,975
EPS (RMB per share)							
- basic	0.787						0.858
- diluted	0.778						0.849
Operating margin	43%						44%
Net margin	32%						35%

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 on options we own in investee companies
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, available-for-sale financial assets, and intangible assets arising from acquisitions

Liquidity and Financial Resources

Our net cash positions as at 30 June 2016 and 31 March 2016 are as follows:

	Unaudited 30 June 2016	Unaudited 31 March 2016
	(RMB in millions)	
Cash and cash equivalents	64,206	56,607
Term deposits	<u>44,808</u>	<u>42,752</u>
	109,014	99,359
Borrowings	(43,110)	(31,175)
Notes payable	<u>(41,867)</u>	<u>(40,755)</u>
Net cash	<u>24,037</u>	<u>27,429</u>

As at 30 June 2016, the Group had net cash of RMB24,037 million. The sequential decrease in net cash was mainly due to payment of our final dividend for the year ended 31 December 2015. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB80 billion as at 30 June 2016.

As at 30 June 2016, RMB42,349 million of our financial resources (cash and cash equivalents and term deposits) were denominated in non-RMB currencies.

For the second quarter of 2016, the Group had free cash flow of RMB9,748 million. This was a result of net cash flow generated from operating activities of RMB11,933 million, offset by payments for capital expenditure of RMB2,185 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2016

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016	2015	2016	2015
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
		25,680	18,428	50,644	37,054
		6,532	4,073	11,233	6,797
		3,479	928	5,809	1,977
		35,691	23,429	67,686	45,828
Cost of revenues	4	(15,235)	(8,991)	(28,641)	(17,956)
Gross profit		20,456	14,438	39,045	27,872
Interest income		626	598	1,329	1,119
Other gains, net	3	911	612	1,417	1,023
Selling and marketing expenses	4	(2,365)	(1,601)	(4,397)	(2,927)
General and administrative expenses	4	(5,299)	(4,011)	(9,667)	(7,679)
Operating profit		14,329	10,036	27,727	19,408
Finance costs, net		(377)	(341)	(868)	(774)
Share of losses of associates and joint ventures		(292)	(452)	(1,381)	(762)
Profit before income tax		13,660	9,243	25,478	17,872
Income tax expense	5	(2,780)	(1,847)	(5,330)	(3,546)
Profit for the period		10,880	7,396	20,148	14,326

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016	2015	2016	2015
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Attributable to:					
	Equity holders of the Company	10,737	7,314	19,920	14,197
	Non-controlling interests	<u>143</u>	<u>82</u>	<u>228</u>	<u>129</u>
		<u>10,880</u>	<u>7,396</u>	<u>20,148</u>	<u>14,326</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
	- basic	6	<u>1.146</u>	<u>0.787</u>	<u>2.128</u>
	- diluted	6	<u>1.133</u>	<u>0.778</u>	<u>2.102</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2016**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	10,880	7,396	20,148	14,326
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive income of associates	277	(168)	285	(98)
Net gains from changes in fair value of available-for-sale financial assets	4,979	4,805	3,326	6,569
Transfer to profit or loss upon disposal of available-for-sale financial assets	79	(10)	79	(10)
Currency translation differences	1,308	(367)	1,094	(180)
Other fair value losses	(182)	—	(321)	—
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Other fair value losses	(66)	—	(328)	—
	6,395	4,260	4,135	6,281
Total comprehensive income for the period	17,275	11,656	24,283	20,607
Attributable to:				
Equity holders of the Company	17,116	11,594	24,036	20,492
Non-controlling interests	159	62	247	115
	17,275	11,656	24,283	20,607

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

		Unaudited	Audited
		30 June	31 December
		2016	2015
	Note	RMB' Million	RMB' Million
ASSETS			
Non-current assets			
Fixed assets		11,469	9,973
Construction in progress		4,066	4,248
Investment properties		710	292
Land use rights		4,066	2,293
Intangible assets		14,190	13,439
Investments in associates	8(a)	64,092	60,171
Investments in redeemable preference shares of associates	8(b)	8,203	6,230
Investments in joint ventures		573	544
Available-for-sale financial assets	9	54,827	44,339
Prepayments, deposits and other assets		7,049	5,480
Deferred income tax assets		4,739	757
Term deposits		9,034	3,674
		<u>183,018</u>	<u>151,440</u>
Current assets			
Inventories		216	222
Accounts receivable	10	8,810	7,061
Prepayments, deposits and other assets		11,908	11,397
Other financial assets		1,537	1,198
Term deposits		35,774	37,331
Restricted cash		125,490	54,731
Cash and cash equivalents		64,206	43,438
		<u>247,941</u>	<u>155,378</u>
Total assets		<u>430,959</u>	<u>306,818</u>

		Unaudited	Audited
		30 June	31 December
		2016	2015
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		14,619	12,167
Shares held for share award schemes		(2,425)	(1,817)
Other reserves		12,884	9,673
Retained earnings		<u>116,192</u>	<u>100,012</u>
		141,270	120,035
Non-controlling interests		<u>2,851</u>	<u>2,065</u>
Total equity		<u>144,121</u>	<u>122,100</u>
LIABILITIES			
Non-current liabilities			
Borrowings	13	33,030	12,922
Notes payable	14	34,585	37,092
Long-term payables		3,936	3,626
Deferred income tax liabilities		3,920	3,668
Deferred revenue		<u>2,365</u>	<u>3,004</u>
		<u>77,836</u>	<u>60,312</u>
Current liabilities			
Accounts payable	12	21,168	15,700
Other payables and accruals		138,759	70,199
Borrowings	13	10,080	11,429
Notes payable	14	7,282	3,886
Current income tax liabilities		3,555	1,608
Other tax liabilities		384	462
Deferred revenue		<u>27,774</u>	<u>21,122</u>
		<u>209,002</u>	<u>124,406</u>
Total liabilities		<u>286,838</u>	<u>184,718</u>
Total equity and liabilities		<u>430,959</u>	<u>306,818</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016

	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 2016	—	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100
Comprehensive income								
Profit for the period	—	—	—	—	19,920	19,920	228	20,148
Other comprehensive income:								
- share of other comprehensive income of associates	—	—	—	285	—	285	—	285
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	3,326	—	3,326	—	3,326
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	79	—	79	—	79
- currency translation differences	—	—	—	1,075	—	1,075	19	1,094
- other fair value losses	—	—	—	(649)	—	(649)	—	(649)
Total comprehensive income for the period	—	—	—	4,116	19,920	24,036	247	24,283
Transactions with owners								
Capital injection	—	—	—	—	—	—	233	233
Employee share option schemes:								
- value of employee services	—	126	—	—	—	126	—	126
- proceeds from shares issued	—	120	—	—	—	120	—	120
Employee share award schemes:								
- value of employee services	—	1,163	—	181	—	1,344	27	1,371
- shares withheld for share award schemes	—	—	(792)	—	—	(792)	—	(792)
- vesting of awarded shares	—	(184)	184	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	730	—	730	—	730
Profit appropriations to statutory reserves	—	—	—	24	(24)	—	—	—
Dividends (Note 7)	—	—	—	—	(3,716)	(3,716)	(523)	(4,239)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	1,227	—	(1,448)	—	(221)	178	(43)
Non-controlling interests arising from disposal of a subsidiary	—	—	—	—	—	—	(2)	(2)
Disposal of equity interests in non-wholly owned subsidiaries	—	—	—	109	—	109	125	234
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(501)	—	(501)	501	—
Total transactions with owners recognised directly in equity for the period	—	2,452	(608)	(905)	(3,740)	(2,801)	539	(2,262)
Balance at 30 June 2016	—	14,619	(2,425)	12,884	116,192	141,270	2,851	144,121

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 2015	<u>—</u>	<u>5,131</u>	<u>(1,309)</u>	<u>2,129</u>	<u>74,062</u>	<u>80,013</u>	<u>2,111</u>	<u>82,124</u>
Comprehensive income								
Profit for the period	—	—	—	—	14,197	14,197	129	14,326
Other comprehensive income:								
- share of other comprehensive income of associates	—	—	—	(98)	—	(98)	—	(98)
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	6,569	—	6,569	—	6,569
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	(10)	—	(10)	—	(10)
- currency translation differences	—	—	—	(166)	—	(166)	(14)	(180)
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,295</u>	<u>14,197</u>	<u>20,492</u>	<u>115</u>	<u>20,607</u>
Transactions with owners								
Capital injection	—	—	—	—	—	—	54	54
Employee share option schemes:								
- value of employee services	—	96	—	81	—	177	12	189
- proceeds from shares issued	—	88	—	—	—	88	—	88
Employee share award schemes:								
- value of employee services	—	856	—	128	—	984	29	1,013
- shares withheld for share award schemes	—	—	(112)	—	—	(112)	—	(112)
- vesting of awarded shares	—	(16)	16	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	5	(5)	—	—	—
Dividends	—	—	—	—	(2,640)	(2,640)	(151)	(2,791)
Non-controlling interests arising from business combination	—	—	—	—	—	—	247	247
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	26	—	26	(52)	(26)
Non-controlling interests arising from disposal of a subsidiary	—	—	—	—	—	—	26	26
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(231)	—	(231)	231	—
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	—	—	—	(1,195)	—	(1,195)	—	(1,195)
Total transactions with owners recognised directly in equity for the period	<u>—</u>	<u>1,024</u>	<u>(96)</u>	<u>(1,186)</u>	<u>(2,645)</u>	<u>(2,903)</u>	<u>396</u>	<u>(2,507)</u>
Balance at 30 June 2015	<u>—</u>	<u>6,155</u>	<u>(1,405)</u>	<u>7,238</u>	<u>85,614</u>	<u>97,602</u>	<u>2,622</u>	<u>100,224</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Unaudited	
	Six months ended	
	30 June	
	2016	2015
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	28,849	17,295
Net cash flows used in investing activities	(21,692)	(21,020)
Net cash flows generated from financing activities	<u>12,704</u>	<u>9,399</u>
Net increase in cash and cash equivalents	19,861	5,674
Cash and cash equivalents at beginning of the period	43,438	42,713
Exchange gains/(losses) on cash and cash equivalents	<u>907</u>	<u>(116)</u>
Cash and cash equivalents at end of the period	<u><u>64,206</u></u>	<u><u>48,271</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	38,640	15,448
Term deposits and highly liquid investments with initial terms within three months	<u>25,566</u>	<u>32,823</u>
	<u><u>64,206</u></u>	<u><u>48,271</u></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 is principally engaged in the provision of VAS and online advertising services to users in the PRC.

This condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2016, the related consolidated income statement, the consolidated statement of comprehensive income for the three and six months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months 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 2015, which have been prepared in accordance with IFRS, as set out in the 2015 annual report of the Company dated 17 March 2016 (the “2015 Financial Statements”).

The accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2015 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, 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 profits.

Amendments to IFRS effective for the financial year ending 31 December 2016 do not have a material impact on the Group’s Interim Financial Information.

2 Segment information

The Group has following reportable segments for the three and six months ended 30 June 2016 and 2015:

- VAS;
- Online advertising; and
- Others

“Others” segment of the Group primarily comprises payment related services, cloud services and others.

There were no material inter-segment sales during the three and six months ended 30 June 2016 and 2015. 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 2016 and 2015 is as follows:

	Unaudited Three months ended 30 June 2016			
	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>25,680</u>	<u>6,532</u>	<u>3,479</u>	<u>35,691</u>
Gross profit	<u>17,130</u>	<u>2,957</u>	<u>369</u>	<u>20,456</u>
Depreciation	450	49	121	620
Amortisation	387	1,384	–	1,771
Share of losses of associates and joint ventures	<u>(39)</u>	<u>(18)</u>	<u>(235)</u>	<u>(292)</u>
	Unaudited Three months ended 30 June 2015			
	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>18,428</u>	<u>4,073</u>	<u>928</u>	<u>23,429</u>
Gross profit	<u>12,207</u>	<u>2,112</u>	<u>119</u>	<u>14,438</u>
Depreciation	491	42	9	542
Amortisation	116	446	–	562
Share of (losses)/profits of associates and joint ventures	<u>(60)</u>	<u>27</u>	<u>(419)</u>	<u>(452)</u>

Unaudited
Six months ended 30 June 2016

	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>50,644</u>	<u>11,233</u>	<u>5,809</u>	<u>67,686</u>
Gross profit	<u>33,504</u>	<u>5,009</u>	<u>532</u>	<u>39,045</u>
Depreciation	897	96	229	1,222
Amortisation	876	2,056	—	2,932
Share of losses of associates and joint ventures	<u>(335)</u>	<u>(4)</u>	<u>(1,042)</u>	<u>(1,381)</u>

Unaudited
Six months ended 30 June 2015

	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>37,054</u>	<u>6,797</u>	<u>1,977</u>	<u>45,828</u>
Gross profit	<u>24,379</u>	<u>3,174</u>	<u>319</u>	<u>27,872</u>
Depreciation	990	85	19	1,094
Amortisation	215	965	—	1,180
Share of (losses)/profits of associates and joint ventures	<u>(128)</u>	<u>19</u>	<u>(653)</u>	<u>(762)</u>

3 Other gains, net

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016 RMB'Million	2015 RMB'Million	2016 RMB'Million	2015 RMB'Million
Impairment provision for investee companies and intangible assets from acquisition	(2,437)	(1,052)	(2,497)	(1,275)
Gains on disposals/deemed disposals of investees and businesses	2,327	1,487	3,060	2,326
Fair value gains on other financial instruments	663	—	658	—
Subsidies and tax rebates	154	56	286	65
Dividend income	33	173	51	214
Donation to Tencent Charity Funds	—	—	(350)	(250)
Others	171	(52)	209	(57)
	<u>911</u>	<u>612</u>	<u>1,417</u>	<u>1,023</u>

4 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (a)	5,426	4,544	10,205	8,602
Content costs and agency fees (excluding amortisation of intangible assets)	4,945	3,582	10,220	7,255
Bandwidth and server custody fees	1,869	1,333	3,572	2,509
Channel costs	1,961	955	3,548	1,944
Promotion and advertising expenses	1,701	1,080	3,117	1,944
Amortisation of intangible assets (b)	1,882	662	3,153	1,385
Depreciation of fixed assets (a)	903	769	1,771	1,549
Operating lease rentals in respect of office buildings	275	223	518	436
Travelling and entertainment expenses	176	131	341	270

Note:

(a) Included the expenses incurred for research and development as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses	2,116	1,643	3,976	3,288
Depreciation of fixed assets	209	175	405	346
Others	421	254	698	465
Research and development expenses	<u>2,746</u>	<u>2,072</u>	<u>5,079</u>	<u>4,099</u>

No development expenses had been capitalised for the three and six months ended 30 June 2016 and 2015.

(b) Included amortisation charge of intangible assets in respect of game licenses and licensed online contents.

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 2016 and 2015.

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three and six months ended 30 June 2016 and 2015.

(c) PRC corporate income tax

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the three and six months ended 30 June 2016 and 2015, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the three and six months ended 30 June 2016 and 2015.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the three and six months ended 30 June 2016 and 2015 according to the applicable CIT Law.

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

(d) Corporate income tax in other countries

CIT provision has been provided for the three and six months ended 30 June 2016 and 2015 for the entities within the Group which were incorporated in the United States, Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 36%.

(e) **Withholding tax**

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. 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.

Similar tax regulations and appropriate withholding taxes are also applicable to certain countries and regions.

The income tax expense of the Group for the three and six months ended 30 June 2016 and 2015 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current tax	2,902	1,885	5,262	3,670
Deferred income tax	<u>(122)</u>	<u>(38)</u>	<u>68</u>	<u>(124)</u>
	<u>2,780</u>	<u>1,847</u>	<u>5,330</u>	<u>3,546</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		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
Profit attributable to equity holders of the Company (RMB'Million)	<u>10,737</u>	<u>7,314</u>	<u>19,920</u>	<u>14,197</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,369</u>	<u>9,292</u>	<u>9,363</u>	<u>9,289</u>
Basic EPS (RMB per share)	<u>1.146</u>	<u>0.787</u>	<u>2.128</u>	<u>1.528</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, and the convertible bonds of the subsidiaries should also have potential dilutive effect on the EPS. During the three and six months ended 30 June 2016 and 2015, these share options and restricted shares and convertible bonds had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
Profit attributable to equity holders of the Company (RMB' Million)	<u>10,737</u>	<u>7,314</u>	<u>19,920</u>	<u>14,197</u>
Weighted average number of ordinary shares in issue (million shares)	9,369	9,292	9,363	9,289
Adjustments for share options and awarded shares (million shares)	<u>111</u>	<u>103</u>	<u>112</u>	<u>102</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,480</u>	<u>9,395</u>	<u>9,475</u>	<u>9,391</u>
Diluted EPS (RMB per share)	<u>1.133</u>	<u>0.778</u>	<u>2.102</u>	<u>1.512</u>

7 Dividends

A final dividend in respect of the year ended 31 December 2015 of HKD0.47 per share (2014: HKD0.36 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2016 and approved by the shareholders at the 2016 AGM. Such dividend amounting to RMB3,716 million (final dividend for 2014: RMB2,640 million), was paid/payable as at 30 June 2016.

The Board did not declare any interim dividend for the six months ended 30 June 2016 and 2015.

8 Interests in associates

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Investments in associates (a)		
- Listed shares	35,926	36,040
- Unlisted shares	28,166	24,131
	64,092	60,171
Investments in redeemable preference shares of associates (b)	8,203	6,230
	72,295	66,401

Note:

(a) Investments in associates

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
At beginning of period	60,171	51,131
Additions (i)	3,971	6,185
Deemed disposal gains	1,926	1,278
Share of losses of associates	(1,385)	(767)
Share of other comprehensive income of associates	285	(102)
Dividends from associates	(87)	(55)
Disposals and transfers	(211)	(3,560)
Impairment provision (ii)	(1,678)	(606)
Currency translation differences	1,100	(58)
At end of period	64,092	53,446

- (i) The Group acquired interests in associates, made additional investments in existing associates and redesignated from available-for-sale financial assets with an aggregate amount of RMB3,971 million during the six months ended 30 June 2016.
- (ii) During the six months ended 30 June 2016, the Group made an aggregate impairment provision of RMB1,678 million (for the six months ended 30 June 2015: RMB606 million) against the carrying amounts of its investments in certain associates, based on the results of impairment assessment performed on their carrying amounts against the respective recoverable amounts.

(b) Investments in redeemable preference shares of associates

The Group held certain redeemable preference shares of the associates. The redemption prices of the relevant shares are agreed at not less than their respective original subscription prices.

The Group acquired several redeemable preference shares of the associates or made additional investments in existing redeemable preference shares of associates for an aggregate consideration of RMB1,970 million during the six months ended 30 June 2016.

During the six months ended 30 June 2016, the Group made an impairment provision of approximately RMB123 million (for six months ended 30 June 2015: Nil) against the carrying amounts of its investments in redeemable preference shares of certain associates based on the results of impairment assessment performed with reference to the business performances and recoverable amounts of these investments.

9 Available-for-sale financial assets

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Listed equity interests	18,057	9,435
Unlisted equity investments	36,601	34,879
Other unlisted investments	169	25
	<u>54,827</u>	<u>44,339</u>

Movement of available-for-sale financial assets is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'Million	RMB'Million
At beginning of period	44,339	13,277
Additions ((a) and (b))	7,212	6,846
Changes in fair value (c)	3,063	6,796
Impairment provision (d)	(690)	(521)
Currency translation differences	903	(28)
At end of period	<u>54,827</u>	<u>26,370</u>

Note:

- (a) During the six months ended 30 June 2016, the Group acquired additional equity interests of an existing available-for-sale financial asset, which is an online transportation network company, at a cash consideration of USD330 million (equivalent to approximately RMB2,155 million).
- (b) The Group also acquired certain interests or made additional investments in certain existing interests or redesignated from investments in associates with an aggregate amount of RMB5,057 million during the six months ended 30 June 2016.
- (c) Fair value gains recognised for the available-for-sale financial assets during the six months ended 30 June 2016 of RMB3,063 million (during the six months ended 30 June 2015: RMB6,796 million) were recognised in the other comprehensive income.
- (d) During the six months ended 30 June 2016, the Group made an impairment provision of RMB690 million (for the six months ended 30 June 2015: RMB521 million) against the carrying amounts of certain available-for-sale financial assets, with reference to their respective market value, business performance and assessed recoverable amounts.

10 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited 30 June 2016 RMB'Million	Audited 31 December 2015 RMB'Million
0 - 30 days	4,066	3,616
31 - 60 days	2,557	2,209
61 - 90 days	1,215	798
Over 90 days	<u>972</u>	<u>438</u>
	<u>8,810</u>	<u>7,061</u>

Receivable balances as at 30 June 2016 and 31 December 2015 mainly represented amounts due from online advertising customers, telecommunications operators, and third party online/mobile apps platforms.

Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted with a credit period of 90 days after full execution of the contracted advertisement orders. Telecommunication operators and third party platforms usually settle the amounts due by them within a period of 30 to 120 days and 60 days, respectively.

11 Share option and share award schemes

(a) Share option schemes

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

The Pre-IPO Option Scheme and the Post-IPO Option Scheme I expired on 31 December 2011 and 23 March 2014 respectively.

In respect of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, the Board may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. 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 or 10-year period 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	Total
	Average	Average	No. of
	exercise price	exercise price	options
			options
At 1 January 2016	HKD80.59	HKD31.70	30,697,305
Granted	HKD158.10	–	10,425,000
Exercised	HKD26.62	HKD31.70	(4,906,012)
Lapsed	HKD26.08	–	(48,800)
At 30 June 2016	HKD108.53	HKD31.70	36,167,493
Exercisable as at			
30 June 2016	HKD75.13	–	10,620,554
At 1 January 2015	HKD57.36	HKD31.70	41,432,000
Granted	HKD149.80	–	525,000
Exercised	HKD16.48	–	(6,773,550)
Lapsed	HKD25.14	–	(212,500)
At 30 June 2015	HKD68.45	HKD31.70	34,970,950
Exercisable as at			
30 June 2015	HKD48.82	HKD31.70	10,248,615

During the six months ended 30 June 2016, 3,750,000 options were granted to one director of the Company (for the six months ended 30 June 2015: Nil).

(b) Share award schemes

The Company has adopted the Share Award Schemes, both of which are administered by an independent trustee appointed by the Group as of 30 June 2016. 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 2016 and 2015 are as follows:

	Number of awarded shares
At 1 January 2016	91,786,907
Granted	25,984,856
Lapsed	(1,773,912)
Vested and transferred	<u>(24,714,206)</u>
At 30 June 2016	<u>91,283,645</u>
Vested but not transferred as at 30 June 2016	<u>—</u>
At 1 January 2015	82,035,522
Granted	10,088,130
Lapsed	(2,289,714)
Vested and transferred	<u>(4,556,637)</u>
At 30 June 2015	<u>85,277,301</u>
Vested but not transferred as at 30 June 2015	<u>—</u>

During the six months ended 30 June 2016, 50,000 awarded shares were granted to three independent non-executive directors of the Company (for the six months ended 30 June 2015: 75,000 awarded shares were granted to three independent non-executive directors of the Company).

12 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 June 2016 RMB'Million	Audited 31 December 2015 RMB'Million
0 - 30 days	12,480	10,019
31 - 60 days	1,604	1,774
61 - 90 days	2,009	1,518
Over 90 days	<u>5,075</u>	<u>2,389</u>
	<u>21,168</u>	<u>15,700</u>

13 Borrowings

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	<u>33,030</u>	<u>12,922</u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	9,947	10,715
Current portion of long-term USD bank borrowings, unsecured (a)	<u>133</u>	<u>714</u>
	<u>10,080</u>	<u>11,429</u>
	<u>43,110</u>	<u>24,351</u>

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD5,001 million (31 December 2015: USD2,100 million). Applicable interest rates are at LIBOR plus 0.91% to 1.51% (31 December 2015: LIBOR plus 1.02% to 1.52%) per annum.
- (b) The aggregate principal amount of short-term USD bank borrowings was USD1,500 million (31 December 2015: USD1,650 million). Applicable interest rates are at LIBOR plus 0.70% to 0.80% (31 December 2015: LIBOR plus 0.75% to 0.85% or an interest rate of 1.125%) per annum.

14 Notes payable

	Unaudited	Audited
	30 June	31 December
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	31,010	33,583
Non-current portion of long-term HKD notes payable	<u>3,575</u>	<u>3,509</u>
	<u>34,585</u>	<u>37,092</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	<u>7,282</u>	<u>3,886</u>
	<u>41,867</u>	<u>40,978</u>

Note:

The aggregate principal amount of USD notes payable and HKD notes payable were USD5,800 million (31 December 2015: USD5,800 million) and HKD4,200 million (31 December 2015: HKD4,200 million), respectively. The interest rate range of the notes payable is from 2.00% to 4.70% (31 December 2015: 2.00% to 4.70%) per annum.

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

15 Investment in Supercell

On 21 June 2016, a limited liability company established and currently indirectly wholly owned by the Company (the "Consortium") has agreed to acquire up to approximately 84.3% equity interest in Supercell for an aggregate consideration, payable in three instalments, currently expected to be approximately USD7.8 billion ("Acquisition").

The Company is currently in discussions with potential co-investors in investing in the Consortium. Upon the potential co-investors joining the Consortium, the Company currently expects to maintain a 50% voting interest in the Consortium through various forms of financial instruments.

The consideration is expected to be funded by the Consortium with an investment by the Company through the Consortium up to USD4 billion, and the remaining balance of the consideration is expected to be financed by investments from potential co-investors into the Consortium and bank borrowings by the Consortium. The final funding combination is subject to modification as required in the Consortium and through negotiations with financing sources.

The Acquisition is expected to be completed by the end of 2016.

16 Subsequent events

The integration of the Group's online music business with CMC

Subsequent to the balance sheet date, the Group completed an integration of its online music business with CMC, an existing associate of the Group which also operates online music business in the PRC, in the form of integrating the Group's online music related operating assets and liabilities into CMC ("Integration") in exchange of subscription of additional equity interest of CMC by the Group. Upon the completion of the Integration, together with the interest already owned by the Group before this transaction, CMC became a subsidiary of the Group and the Group's interest in CMC was approximately 61.6% of its issued and outstanding shares.

Due to the timing of the completion of the Integration, the Group is in the process of finalising the related valuation for accounting purpose, accordingly, certain disclosures in relation to the business combination as at the date of completion such as the purchase price allocation and pro forma sales and earnings have not been presented.

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 2016.

Employee and Remuneration Policies

As at 30 June 2016, the Group had 31,557 employees (30 June 2015: 28,072). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the six months ended 30 June 2016 was RMB10,205 million (for the six months ended 30 June 2015: RMB8,602 million).

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2016.

Compliance with the Corporate Governance Code

Save as disclosed in the corporate governance report in the 2015 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the CG Code during the period from 1 January 2016 to 30 June 2016.

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 express our sincere appreciation to all our staff and management team for their dedication, diligence and commitment. I would also like to thank all our shareholders and stakeholders for their continuing confidence and support. Looking forward, we will strive to enrich our platforms with quality products and services for the healthy development of a prosperous Internet ecosystem.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 17 August 2016

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 have the following meanings:

Term	Definition
“2016 AGM”	the annual general meeting of the Company held on 18 May 2016
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
“CIT”	corporate income tax
“CMC”	China Music Corporation, a limited liability company incorporated under the laws of the Cayman Islands
“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
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IPO”	initial public offering
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“NBA”	the National Basketball Association
“PC”	personal computer
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PVP”	player-versus-player
“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
“Supercell”	Supercell Oy, a private company incorporated in Finland
“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