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 MONTHS ENDED 31 MARCH 2014

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2014. These interim results have been reviewed by the Auditor in accordance with International Standard on Review Engagement 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				
	31 March 2014	31 March 2013	Year-on-year change	31 December 2013	Quarter-on-quarter change
	(RMB in millions, unless specified)				
Revenues	**18,400**	13,548	36%	16,970	8%
Gross profit	**10,600**	7,594	40%	8,772	21%
Operating profit	**7,790**	5,063	54%	4,751	64%
Profit for the period	**6,432**	4,071	58%	3,931	64%
Profit attributable to equity holders of the Company	**6,457**	4,044	60%	3,911	65%
Non-GAAP profit attributable to equity holders of the Company*	**5,194**	4,038	29%	4,440	17%
EPS (RMB per share)					
- basic	**3.500**	2.204	59%	2.125	65%
- diluted	**3.449**	2.166	59%	2.092	65%
Non-GAAP EPS (RMB per share)*					
- basic	**2.816**	2.200	28%	2.413	17%
- diluted	**2.775**	2.163	28%	2.375	17%

* Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in our non-GAAP adjustments due to their increased significance. Previously, we only included gains/losses on deemed disposals of investees in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation. We changed this policy in order to present clearly to investors the one-time nature of the gains on disposals of investees and businesses we generated during the first quarter of 2014.

BUSINESS REVIEW AND OUTLOOK

Overall Financial Performance

For the first quarter of 2014, revenues increased by 36% year-on-year to RMB18,400 million.

- *VAS.* Revenues from our VAS business increased by 35% year-on-year to RMB14,413 million. Our online game business benefited from new contributions from smart phone games integrated with Mobile QQ and Weixin, revenue growth in our major PC titles and international business, as well as contributions from new PC titles such as Blade & Soul. Our social networks achieved accelerated revenue growth, driven by platform revenues from smart phone games integrated with Mobile QQ and Weixin, as well as item-based sales within applications on our open platforms.

- *Online advertising.* Revenues from our online advertising business increased by 38% year-on-year to RMB1,177 million. This was driven by growth in our performance-based social advertising, online video advertising and, to a lesser extent, traditional brand display advertising, which more than offset the revenue impact of transferring our online search business to Sogou in September 2013.

- *eCommerce transactions.* Revenues from our eCommerce transactions business increased by 32% year-on-year to RMB2,524 million, mainly reflecting growth in principal eCommerce transactions volume.

Profit attributable to equity holders of the Company increased by 60% year-on-year to RMB6,457 million. The strong increase in profits reflected growth of our businesses, as well as one-off gains as a result of our strategic transaction with JD.com and disposal of equity interests in ChinaVision.

Non-GAAP profit attributable to equity holders of the Company, which excludes certain non-cash items, the one-off disposal gains mentioned above, and certain other impacts of M&A transactions, increased by 29% year-on-year to RMB5,194 million.

Strategic Highlights

In the first quarter of 2014, we conducted several transactions to complement our corporate strategy, including: (1) our transaction with JD.com for further developing our eCommerce business; (2) our investment in and partnership with CJ Games, which should bring more high quality mobile game experiences to our users; and (3) our investment in and partnership with Leju, to broaden our O2O offerings for real estate services.

On the financing side, we gained increased market recognition for our strong credit profile and raised new funds. In March 2014, we received an upgrade from Moody's on our issuer and senior unsecured debt ratings from Baa1 to A3. In April 2014, we established a USD5 billion global medium term note programme and completed the initial issuance of an aggregate principal amount of USD2.5 billion under the programme, which comprised USD500 million 3-year senior notes at a 2.000% coupon and USD2 billion 5-year senior notes at a 3.375% coupon. We are pleased that global institutional investors actively participated in the initial issuance, showing their recognition of our market leading position, history of stable growth and record of good corporate governance. With our healthy cash generation and substantial net cash balance, we are well-positioned to maintain our strong credit profile and we remain committed to our prudent financial management approach.

Divisional and Product Highlights

Operating Information

	As at 31 March 2014	As at 31 March 2013	Year-on-year change	As at 31 December 2013	Quarter-on-quarter change
	(in millions, unless specified)				
MAU of QQ	**848.1**	825.4	2.8%	808.0	5.0%
PCU of QQ (for the quarter)	**199.4**	173.0	15.3%	180.3	10.6%
Combined MAU of Weixin and WeChat	**395.8**	211.8	86.9%	355.0	11.5%
MAU of Qzone	**644.2**	611.0	5.4%	625.2	3.0%
Fee-based VAS registered subscriptions	**88.0**	104.6	-15.9%	88.6	-0.7%

Key Platforms

Both QQ and Qzone experienced significant expansion in their mobile user bases and enhancement in user engagement on mobile. For QQ, aggregate MAU increased by 3% year-on-year to 848 million at the end of the first quarter of 2014. PCU benefited from improved user experience on smart phones and reached 200 million in April 2014. Mobile QQ enjoyed strong user growth as smart device MAU increased by 52% year-on-year to 490 million. For Qzone, aggregate MAU grew by 5% year-on-year to 644 million at the end of the first quarter of 2014. Qzone smart device MAU reached 467 million, representing a year-on-year increase of 44%.

Combined MAU of Weixin and WeChat increased by 87% year-on-year to 396 million at the end of the first quarter of 2014. During the quarter, we focused on building an ecosystem for Weixin through measures including: (1) integrating with Dianping and other services under Weixin Payment; (2) expanding the user base of Weixin Payment via a significant subsidy programme, notably for booking taxi rides; and (3) exploring mobile eCommerce with selected merchants via their Official Accounts. Internationally, we continued to drive user engagement for WeChat in selected countries.

As for our media platforms, Tencent News leveraged our strengths in mobile platforms to consolidate its position as the leading mobile news application in China. Tencent Video achieved a strong uplift in users and traffic during the first quarter of 2014, riding on enriched content, platform integration and enhanced user experience. While online video market shares are somewhat driven by content rights and therefore volatile, we are pleased that iResearch reported Tencent Video reached first place in terms of PC monthly unique visitors among Chinese online video sites during March 2014, and comScore reported Tencent Video reached first place in terms of PC monthly video views during the same month.

VAS

In the first quarter of 2014, item-based sales on our open platforms registered solid year-on-year growth, as we expanded the portfolio of applications available to users and improved user experience. In aggregate, our VAS subscription services remained weak compared to the same period last year. However, QQ Membership, our longest-established subscription service, achieved modest year-on-year revenue growth during the quarter, boosted by integration of mobile with PC privileges, and we look forward to extending mobile privileges to some of our other subscription services.

Our online games business achieved a healthy year-on-year increase in revenues, with growth across PC client games and mobile games. For PC client games, while our major titles and international business expanded organically, new titles such as Blade & Soul made significant revenue contribution. For mobile games, we expanded our portfolio of smart phones games integrated with Mobile QQ and Weixin, and focused on leveraging the strengths of our platforms to increase monetisation. For the first quarter of 2014, the paying user base for these games more than doubled sequentially, and total revenues approximately tripled sequentially, to over RMB1.8 billion. Six of these games were ranked within the Top 10 Grossing Chart in China's iOS App Store at some point during the quarter. To enrich our portfolio of smart phone games, we added several international hit titles to our pipeline, such as Candy Crush Saga and Taming Monster.

Online Advertising

Our online advertising business benefited from revenue growth across the brand display and performance display categories. For brand display advertising, revenues from our online video platform grew robustly year-on-year with higher CPM and sell through rate, while traditional brand display advertising registered more moderate growth. Contributions from brand display advertising on our mobile news service expanded sequentially, albeit from a low base. For performance display advertising, our social platforms benefited from higher impression volume and cost per click, and achieved significant year-on-year revenue growth. During the quarter, we continued to expand our inventories for performance-based advertising and explore performance-based mobile advertising opportunities on our platforms.

eCommerce Transactions

Our eCommerce transaction business registered revenue growth on a year-on-year basis, against a backdrop of business strategy transition. Subsequent to the completion of the transaction with JD.com in March 2014, we no longer recognise fee income generated from physical goods transactions on our marketplaces. Looking ahead, we believe the revenues and costs of our eCommerce transactions business may decline as we focus our resources on the partnership with JD.com.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2014 Compared to First Quarter of 2013

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

	Unaudited Three months ended 31 March 2014	31 March 2013
	(RMB in millions)	
Revenues	**18,400**	13,548
Cost of revenues	**(7,800)**	(5,954)
Gross profit	**10,600**	7,594
Interest income	**375**	277
Other gains, net	**1,607**	351
Selling and marketing expenses	**(1,855)**	(963)
General and administrative expenses	**(2,937)**	(2,196)
Operating profit	**7,790**	5,063
Finance costs, net	**(238)**	(82)
Share of profit of associates	**45**	131
Share of losses of joint ventures	**(1)**	(12)
Profit before income tax	**7,596**	5,100
Income tax expense	**(1,164)**	(1,029)
Profit for the period	**6,432**	4,071
Attributable to:		
Equity holders of the Company	**6,457**	4,044
Non-controlling interests	**(25)**	27
	6,432	4,071
Non-GAAP profit attributable to equity holders of the Company*	**5,194**	4,038

* Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments due to their increased significance. Previously, we only included gains/losses on deemed disposals of investees in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation. We changed this policy in order to present clearly to investors the one-time nature of the gains on disposals of investees and businesses we generated during the first quarter of 2014.

Revenues. Revenues increased by 36% to RMB18,400 million for the first quarter of 2014 from the first quarter of 2013. The following table sets forth our revenues by line of business for the first quarter of 2014 and the first quarter of 2013:

	Unaudited Three months ended			
	31 March 2014		31 March 2013	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**14,413**	**78%**	10,666	79%
Online advertising	**1,177**	**6%**	850	6%
eCommerce transactions	**2,524**	**14%**	1,914	14%
Others	**286**	**2%**	118	1%
Total revenues	**18,400**	**100%**	13,548	100%

- Revenues from our VAS business increased by 35% to RMB14,413 million for the first quarter of 2014 from the first quarter of 2013. Online games revenues increased by 39% to RMB10,387 million. The increase was mainly driven by new contributions from smart phone games integrated with Mobile QQ and Weixin, revenue growth from major PC titles and our international business, as well as contributions from new PC titles such as Blade & Soul. Social networks revenues increased by 26% to RMB4,026 million. This was primarily driven by an increase in platform revenues from smart phone games integrated with Mobile QQ and Weixin, as well as growth in item-based sales within applications on our open platforms, partially offset by a decline in subscription revenues.

- Revenues from our online advertising business increased by 38% to RMB1,177 million for the first quarter of 2014 from the first quarter of 2013. This was primarily driven by increases in revenues from performance-based social advertising, online video advertising and, to a lesser extent, traditional brand display advertising, which more than offset the revenue impact of transferring our online search business to Sogou in September 2013.

- Revenues from our eCommerce transactions business increased by 32% to RMB2,524 million for the first quarter of 2014 from the first quarter of 2013. This was mainly driven by growth in principal eCommerce transactions volume.

Cost of revenues. Cost of revenues increased by 31% to RMB7,800 million for the first quarter of 2014 from the first quarter of 2013. This primarily reflected increases in cost of merchandise sold, sharing and content costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues decreased to 42% for the first quarter of 2014 from 44% for the first quarter of 2013. The following table sets forth our cost of revenues by line of business for the first quarter of 2014 and the first quarter of 2013:

	Unaudited Three months ended			
	31 March 2014		31 March 2013	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**4,371**	**30%**	3,593	34%
Online advertising	**766**	**65%**	504	59%
eCommerce transactions	**2,422**	**96%**	1,782	93%
Others	**241**	**84%**	75	64%
Total cost of revenues	**7,800**		5,954	

– Cost of revenues for our VAS business increased by 22% to RMB4,371 million for the first quarter of 2014 from the first quarter of 2013. This was primarily driven by increases in sharing and content costs, bandwidth and server custody fees as well as staff costs. Cost of revenues grew more slowly than revenues partly due to relatively higher incremental margins on our smart phone games, which were mostly internally-developed titles.

– Cost of revenues for our online advertising business increased by 52% to RMB766 million for the first quarter of 2014 from the first quarter of 2013. The increase mainly reflected an increase in video content cost, for which we have accelerated the amortisation since the fourth quarter of 2013. Bandwidth and server custody fees as well as staff costs also increased.

– Cost of revenues for our eCommerce transactions business increased by 36% to RMB2,422 million for the first quarter of 2014 from the first quarter of 2013. This primarily reflected an increase in cost of merchandise sold driven by growth in our principal eCommerce transactions volume.

Other gains, net. Other gains, net increased to RMB1,607 million for the first quarter of 2014 from the first quarter of 2013. The increase was driven by a disposal gain of RMB1,942 million flowing from our strategic transaction with JD.com, and a disposal gain of RMB743 million on sale of our equity interests in ChinaVision, partially offset by the recognition of impairment provision for selected investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 93% to RMB1,855 million for the first quarter of 2014 from the first quarter of 2013. This primarily reflected a significant subsidy program for users and merchants of Weixin Payment, notably for booking taxi rides, together with increased marketing spending on our mobile security software and mobile browser. As a percentage of revenues, selling and marketing expenses increased to 10% for the first quarter of 2014 from 7% for the first quarter of 2013.

General and administrative expenses. General and administrative expenses increased by 34% to RMB2,937 million for the first quarter of 2014 from the first quarter of 2013. This mainly reflected higher research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses was 16% for the first quarter of 2014, broadly stable compared to the first quarter of 2013.

Finance costs, net. Finance costs, net increased to RMB238 million for the first quarter of 2014 from the first quarter of 2013. This primarily reflected the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in the first quarter of 2014, compared to foreign exchange gains in the same period last year.

Income tax expense. Income tax expense increased by 13% to RMB1,164 million for the first quarter of 2014 from the first quarter of 2013. In the first quarter of 2014, deferred tax liabilities in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies increased as compared to same period last year. Conversely, in the first quarter of 2014, we recognised a reversal of income tax expense for a subsidiary in China which qualified to enjoy a lower CIT rate.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 60% to RMB6,457 million for the first quarter of 2014 from the first quarter of 2013. Non-GAAP profit attributable to equity holders of the Company increased by 29% to RMB5,194 million for the first quarter of 2014 from the first quarter of 2013.

First Quarter of 2014 Compared to Fourth Quarter of 2013

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

	Unaudited Three months ended 31 March 2014	31 December 2013
	(RMB in millions)	
Revenues	**18,400**	16,970
Cost of revenues	**(7,800)**	(8,198)
Gross profit	**10,600**	8,772
Interest income	**375**	377
Other gains, net	**1,607**	405
Selling and marketing expenses	**(1,855)**	(2,033)
General and administrative expenses	**(2,937)**	(2,770)
Operating profit	**7,790**	4,751
Finance (costs)/income, net	**(238)**	6
Share of profit/(losses) of associates	**45**	(14)
Share of losses of joint ventures	**(1)**	(4)
Profit before income tax	**7,596**	4,739
Income tax expense	**(1,164)**	(808)
Profit for the period	**6,432**	3,931
Attributable to:		
Equity holders of the Company	**6,457**	3,911
Non-controlling interests	**(25)**	20
	6,432	3,931
Non-GAAP profit attributable to equity holders of the Company*	**5,194**	4,440

* Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments due to their increased significance. Previously, we only included gains/losses on deemed disposals of investees in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation. We changed this policy in order to present clearly to investors the one-time nature of the gains on disposals of investees and businesses we generated during the first quarter of 2014.

Revenues. Revenues increased by 8% to RMB18,400 million for the first quarter of 2014 from the fourth quarter of 2013. The following table sets forth our revenues by line of business for the first quarter of 2014 and the fourth quarter of 2013:

	Unaudited Three months ended			
	31 March 2014		31 December 2013	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**14,413**	**78%**	11,932	70%
Online advertising	**1,177**	**6%**	1,497	9%
eCommerce transactions	**2,524**	**14%**	3,324	20%
Others	**286**	**2%**	217	1%
Total revenues	**18,400**	**100%**	16,970	100%

- Revenues from our VAS business increased by 21% to RMB14,413 million for the first quarter of 2014 from the fourth quarter of 2013. Online games revenues increased by 23% to RMB10,387 million. The growth was mainly driven by increased revenues from smart phone games integrated with Mobile QQ and Weixin, increased revenues from major PC titles which benefited from promotional activities and positive seasonality, as well as contributions from new PC game titles such as Blade & Soul. Social networks revenues increased by 16% to RMB4,026 million. This mainly reflected an increase in platform revenues from smart phone games integrated with Mobile QQ and Weixin.

- Revenues from our online advertising business decreased by 21% to RMB1,177 million for the first quarter of 2014 from the fourth quarter of 2013. This mainly reflected the impact of weaker seasonality on advertisers' spending around the Chinese New Year holidays, together with the transition in our eCommerce strategy which affected eCommerce-related advertising revenues.

- Revenues from our eCommerce transactions business decreased by 24% to RMB2,524 million for the first quarter of 2014 from the fourth quarter of 2013. This was mainly driven by weaker seasonality in the eCommerce industry and the transition in our business strategy. Subsequent to the completion of the transaction with JD.com in March 2014, we no longer recognise fee income generated from physical goods transactions on our marketplaces.

Cost of revenues. Cost of revenues decreased by 5% to RMB7,800 million for the first quarter of 2014 from the fourth quarter of 2013. The change primarily reflected a decline in cost of merchandise sold as a result of the sequential decrease in revenues from our eCommerce transactions business, partly offset by an increase in staff costs. As a percentage of revenues, cost of revenues decreased to 42% for the first quarter of 2014 from 48% for the fourth quarter of 2013. The following table sets forth our cost of revenues by line of business for the first quarter of 2014 and the fourth quarter of 2013:

	Unaudited Three months ended			
	31 March 2014		31 December 2013	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**4,371**	**30%**	3,886	33%
Online advertising	**766**	**65%**	1,011	68%
eCommerce transactions	**2,422**	**96%**	3,164	95%
Others	**241**	**84%**	137	63%
Total cost of revenues	**7,800**		8,198	

– Cost of revenues for our VAS business increased by 12% to RMB4,371 million for the first quarter of 2014 from the fourth quarter of 2013. This was primarily driven by increases in sharing and content costs as well as staff costs.

– Cost of revenues for our online advertising business decreased by 24% to RMB766 million for the first quarter of 2014 from the fourth quarter of 2013. This mainly reflected the absence of the true up charge related to the accelerated amortisation of video content costs which we recognised in the fourth quarter of 2013.

– Cost of revenues for our eCommerce transactions business decreased by 23% to RMB2,422 million for the first quarter of 2014 from the fourth quarter of 2013. This primarily reflected a decline in cost of merchandise sold as a result of lower principal eCommerce transactions volume.

Other gains, net. Other gains, net increased to RMB1,607 million for the first quarter of 2014 from the fourth quarter of 2013. The increase was driven by a disposal gain of RMB1,942 million flowing from our strategic transaction with JD.com, and a disposal gain of RMB743 million on sale of our equity interests in ChinaVision, partially offset by increased impairment provision for selected investee companies, a higher donation made to the Tencent Charity Fund, and decreased subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses decreased by 9% to RMB1,855 million for the first quarter of 2014 from the fourth quarter of 2013. This primarily reflected a seasonal reduction in advertising and promotional activities, partly offset by the launch of a significant subsidy program for users and merchants of Weixin Payment, notably for booking taxi rides. As a percentage of revenues, selling and marketing expenses decreased to 10% for the first quarter of 2014 from 12% for the fourth quarter of 2013.

General and administrative expenses. General and administrative expenses increased by 6% to RMB2,937 million for the first quarter of 2014 from the fourth quarter of 2013. This was mainly driven by higher research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses was 16% for the first quarter of 2014, broadly stable compared to the fourth quarter of 2013.

Finance (costs)/income, net. We recorded finance costs, net of RMB238 million for the first quarter of 2014, compared to finance income, net of RMB6 million for the fourth quarter of 2013. The change primarily reflected the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in the first quarter of 2014, compared to foreign exchange gains in the fourth quarter of 2013.

Income tax expense. Income tax expense increased by 44% to RMB1,164 million for the first quarter of 2014 from the fourth quarter of 2013. In the first quarter of 2014, we recognised deferred tax liabilities in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies, whereas no such deferred tax liabilities were recognised in the previous quarter. Conversely, in the first quarter of 2014, we recognised a reversal of income tax expense for a subsidiary in China which qualified to enjoy a lower CIT rate.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 65% to RMB6,457 million for the first quarter of 2014 from the fourth quarter of 2013. Non-GAAP profit attributable to equity holders of the Company increased by 17% to RMB5,194 million for the first quarter of 2014 from the fourth quarter of 2013.

Other Financial Information

	Unaudited Three months ended		
	31 March 2014	31 December 2013	31 March 2013
	(RMB in millions, unless specified)		
EBITDA (a)	**6,787**	5,184	5,157
Adjusted EBITDA (a)	**7,121**	5,467	5,438
Adjusted EBITDA margin (b)	**39%**	32%	40%
Interest expense	**112**	105	98
Net cash (c)	**34,245**	36,218	32,731
Capital expenditures (d)	**1,138**	1,679	1,035

Note:

(a) EBITDA consists of operating profit less interest income, and plus other losses/(gains), net, 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, and restricted cash pledged for secured bank borrowings, minus borrowings and long-term notes payable.

(d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).

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

	Unaudited Three months ended		
	31 March 2014	31 December 2013	31 March 2013
	(RMB in millions, unless specified)		
Operating profit	**7,790**	4,751	5,063
Adjustments:			
Interest income	**(375)**	(377)	(277)
Other (gains)/losses, net	**(1,607)**	(405)	(351)
Depreciation of fixed assets and investment properties	**704**	680	560
Amortisation of intangible assets	**275**	535	162
EBITDA	**6,787**	5,184	5,157
Equity-settled share-based compensation	**334**	283	281
Adjusted EBITDA	**7,121**	5,467	5,438

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the first quarter of 2014, the fourth quarter of 2013 and the first quarter of 2013 to the nearest measures prepared in accordance with IFRS:

	Unaudited three months ended 31 March 2014							
		Adjustments						
	As reported	**Equity-settled share-based compensation**	**Cash-settled share-based compensation (a)**	**(Gains)/losses on deemed disposals/ disposals (b)**	**Amortisation of intangible assets (c)**	**Impairment provision (d)**	**Special dividend income (e)**	**Non-GAAP***
	(RMB in millions, unless specified)							
Operating profit	**7,790**	**334**	**234**	**(2,717)**	**16**	**820**	**–**	**6,477**
Profit for the period	**6,432**	**334**	**234**	**(2,669)**	**55**	**820**	**–**	**5,206**
Profit attributable to equity holders	**6,457**	**328**	**219**	**(2,682)**	**52**	**820**	**–**	**5,194**
EPS (RMB per share)								
- basic	**3.500**							**2.816**
- diluted	**3.449**							**2.775**
Operating margin	**42%**							**35%**
Net margin	**35%**							**28%**

	Unaudited three months ended 31 December 2013							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP*
	(RMB in millions, unless specified)							
Operating profit	4,751	283	180	(242)	24	87	–	5,083
Profit for the period	3,931	283	180	(58)	66	87	–	4,489
Profit attributable to equity holders	3,911	278	160	(58)	62	87	–	4,440
EPS (RMB per share)								
- basic	2.125							2.413
- diluted	2.092							2.375
Operating margin	28%							30%
Net margin	23%							26%

	Unaudited three months ended 31 March 2013							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP*
	(RMB in millions, unless specified)							
Operating profit	5,063	281	117	–	38	–	(438)	5,061
Profit for the period	4,071	281	117	–	58	–	(438)	4,089
Profit attributable to equity holders	4,044	278	104	–	50	–	(438)	4,038
EPS (RMB per share)								
- basic	2.204							2.200
- diluted	2.166							2.163
Operating margin	37%							37%
Net margin	30%							30%

* Since the first quarter of 2014, we have included gains/losses on disposals of investees and businesses in the non-GAAP adjustments due to their increased significance. Previously, we only included gains/losses on deemed disposals of investees in the non-GAAP adjustments. Comparative figures have been restated to conform to the new presentation. We changed this policy in order to present clearly to investors the one-time nature of the gains on disposals of investees and businesses we generated during the first quarter of 2014.

Note:

(a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives

(b) (Gains)/losses, net on deemed disposals of investees and disposals of investees and businesses

(c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax

(d) Impairment provision for associates and available-for-sale financial assets

(e) Special dividend income from Mail.ru

Liquidity and Financial Resources

Our net cash positions as at 31 March 2014 and 31 December 2013 are as follows:

	Unaudited 31 March 2014	Audited 31 December 2013
	(RMB in millions)	
Cash and cash equivalents	**26,523**	20,228
Term deposits, current and non-current	**25,989**	31,043
	52,512	51,271
Borrowings, current and non-current	**(9,035)**	(5,912)
Long-term notes payable	**(9,232)**	(9,141)
Net cash	**34,245**	36,218

As at 31 March 2014, RMB7,273 million of our financial resources (31 December 2013: RMB6,039 million) were held in deposits denominated in non-RMB currencies. Since there are limited cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2014

	Note	**Unaudited 31 March 2014 RMB'Million**	Audited 31 December 2013 RMB'Million
ASSETS			
Non-current assets			
Fixed assets		**8,628**	8,693
Construction in progress		**2,214**	2,041
Investment properties		**272**	–
Land use rights		**806**	871
Intangible assets		**4,369**	4,103
Interests in associates	3	**24,928**	12,170
Investment in joint ventures		**19**	9
Deferred income tax assets		**352**	431
Available-for-sale financial assets	4	**14,278**	12,515
Prepayments, deposits and other assets		**1,291**	1,296
Term deposits		**8,415**	11,420
		65,572	53,549
Current assets			
Inventories		**939**	1,384
Accounts receivable	5	**3,103**	2,955
Prepayments, deposits and other assets		**6,778**	5,365
Term deposits		**17,574**	19,623
Restricted cash		**6,426**	4,131
Cash and cash equivalents		**26,523**	20,228
		61,343	53,686
Total assets		**126,915**	107,235

	Note	Unaudited 31 March 2014 RMB'Million	Audited 31 December 2013 RMB'Million
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		**–**	–
Share premium		**3,185**	2,846
Shares held for share award schemes		**(881)**	(871)
Other reserves		**3,530**	3,746
Retained earnings		**58,681**	52,224
		64,515	57,945
Non-controlling interests		**491**	518
Total equity		**65,006**	58,463
LIABILITIES			
Non-current liabilities			
Borrowings	7	**5,199**	3,323
Long-term notes payable	8	**9,232**	9,141
Deferred income tax liabilities		**1,490**	1,441
Long-term payables		**1,624**	1,600
Deferred revenue		**4,147**	–
		21,692	15,505
Current liabilities			
Accounts payable	9	**8,006**	6,680
Other payables and accruals		**12,127**	10,246
Borrowings	7	**3,836**	2,589
Current income tax liabilities		**725**	1,318
Other tax liabilities		**428**	593
Deferred revenue		**15,095**	11,841
		40,217	33,267
Total liabilities		**61,909**	48,772
Total equity and liabilities		**126,915**	107,235
Net current assets		**21,126**	20,419
Total assets less current liabilities		**86,698**	73,968

CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2014

	Note	Unaudited Three months ended 31 March **2014** **RMB'Million**	2013 RMB'Million
Revenues			
Value-added services		**14,413**	10,666
Online advertising		**1,177**	850
eCommerce transactions		**2,524**	1,914
Others		**286**	118
		18,400	13,548
Cost of revenues	11	**(7,800)**	(5,954)
Gross profit		**10,600**	7,594
Interest income		**375**	277
Other gains, net	10	**1,607**	351
Selling and marketing expenses	11	**(1,855)**	(963)
General and administrative expenses	11	**(2,937)**	(2,196)
Operating profit		**7,790**	5,063
Finance costs, net		**(238)**	(82)
Share of profit of associates		**45**	131
Share of losses of joint ventures		**(1)**	(12)
Profit before income tax		**7,596**	5,100
Income tax expense	12	**(1,164)**	(1,029)
Profit for the period		**6,432**	4,071

	Note	Unaudited Three months ended 31 March **2014** **RMB'Million**	2013 RMB'Million
Attributable to:			
Equity holders of the Company		**6,457**	4,044
Non-controlling interests		**(25)**	27
		6,432	4,071
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
- basic	13	**3.500**	2.204
- diluted	13	**3.449**	2.166

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2014

	Unaudited Three months ended 31 March	
	2014	2013
	RMB'Million	RMB'Million
Profit for the period	**6,432**	4,071
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates	**8**	–
Net losses from changes in fair value of available-for-sale financial assets	**(37)**	(606)
Currency translation differences	**17**	(12)
	(12)	(618)
Total comprehensive income for the period	**6,420**	3,453
Attributable to:		
Equity holders of the Company	**6,441**	3,428
Non-controlling interests	**(21)**	25
	6,420	3,453

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2014

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million
Balance at 1 January 2014	–	2,846	(871)	3,746	52,224	57,945	518	58,463
Comprehensive income								
Profit for the period	–	–	–	–	6,457	6,457	(25)	6,432
Other comprehensive income:								
- share of other comprehensive income of associates	–	–	–	8	–	8	–	8
- net losses from changes in fair value of available-for-sale financial assets	–	–	–	(37)	–	(37)	–	(37)
- currency translation differences	–	–	–	13	–	13	4	17
Total comprehensive income for the period	–	–	–	(16)	6,457	6,441	(21)	6,420
Transaction with owners								
Employee share option schemes:								
- value of employee services	–	11	–	18	–	29	3	32
- proceeds from shares issued	–	64	–	–	–	64	–	64
Employee share award schemes:								
- value of employee services	–	268	–	31	–	299	3	302
- shares purchased for Share Award Schemes	–	–	(14)	–	–	(14)	–	(14)
- vesting of awarded shares	–	(4)	4	–	–	–	–	–
Total contributions by and distributions to owners for the period	–	339	(10)	49	–	378	6	384
Non-controlling interests arising from business combination	–	–	–	–	–	–	84	84
Disposal of equity interests in a non-wholly owned subsidiary	–	–	–	230	–	230	(10)	220
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(479)	–	(479)	(86)	(565)
Total transactions with owners for the period	–	339	(10)	(200)	–	129	(6)	123
Balance at 31 March 2014	–	3,185	(881)	3,530	58,681	64,515	491	65,006

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million
Balance at 1 January 2013	–	2,880	(667)	816	38,269	41,298	850	42,148
Comprehensive income								
Profit for the period	–	–	–	–	4,044	4,044	27	4,071
Other comprehensive income:								
- net losses from changes in fair value of available-for-sale financial assets	–	–	–	(606)	–	(606)	–	(606)
- currency translation differences	–	–	–	(10)	–	(10)	(2)	(12)
Total comprehensive income for the period	–	–	–	(616)	4,044	3,428	25	3,453
Transaction with owners								
Employee share option schemes:								
- value of employee services	–	24	–	12	–	36	2	38
- proceeds from shares issued	–	27	–	–	–	27	–	27
Employee share award schemes:								
- value of employee services	–	235	–	7	–	242	1	243
- shares purchased for Share Award Schemes	–	–	(7)	–	–	(7)	–	(7)
- vesting of awarded shares	–	(4)	4	–	–	–	–	–
Repurchase and cancellation of shares	–	(321)	–	–	–	(321)	–	(321)
Total contributions by and distributions to owners for the period	–	(39)	(3)	19	–	(23)	3	(20)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	6	–	6	(5)	1
Total transactions with owners for the period	–	(39)	(3)	25	–	(17)	(2)	(19)
Balance at 31 March 2013	–	2,841	(670)	225	42,313	44,709	873	45,582

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2014

	Unaudited Three months ended 31 March 2014 RMB'Million	2013 RMB'Million
Net cash flows generated from operating activities	**6,574**	6,978
Net cash flows used in investing activities	**(3,378)**	(4,691)
Net cash flows generated from/(used in) financing activities	**3,043**	(610)
Net increase in cash and cash equivalents	**6,239**	1,677
Cash and cash equivalents at beginning of period	**20,228**	13,383
Exchange gains/(losses) on cash and cash equivalents	**56**	(36)
Cash and cash equivalents at end of period	**26,523**	15,024
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**20,580**	8,617
Term deposits and highly liquid investments with initial term within three months	**5,943**	6,407
	26,523	15,024

Note:

1 General information, basis of preparation and presentation

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

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

The consolidated statement of financial position as at 31 March 2014, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "Interim Financial Information") of the Group have been approved by the Board on 14 May 2014.

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

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

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2013 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of assets and liabilities stated at fair value, such as available-for-sale financial assets.

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

The following amendments to standards and interpretation adopted by the Group, which are mandatory for the financial year of the Group beginning 1 January 2014, have no material impact on the Group's Interim Financial Information.

Amendment to IAS 32	Financial instruments: Presentation
Amendment to IAS 39	Financial Instruments: Recognition and Measurement
Amendments to IFRS 10, 12 and IAS 27	Consolidation for investment entities
IFRIC 21	Levies

2 Segment information

The Group has the following reportable segments for the three months ended 31 March 2014 and 2013:

- VAS;
- Online advertising;
- eCommerce transactions; and
- Others

Others segment of the Group comprises provision of trademark licensing, software development services, software sales and other services.

There were no material inter-segment sales during the three months ended 31 March 2014 and 2013. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three months ended 31 March 2014 and 2013 is as follows:

	Unaudited Three months ended 31 March 2014				
	VAS RMB' Million	Online advertising RMB' Million	eCommerce transactions RMB' Million	Others RMB' Million	Total RMB' Million
Segment revenues	**14,413**	**1,177**	**2,524**	**286**	**18,400**
Gross profit	**10,042**	**411**	**102**	**45**	**10,600**
Depreciation	**454**	**38**	**4**	**6**	**502**
Amortisation	**45**	**182**	**–**	**–**	**227**
Share of profit/(losses) of associates	**145**	**(45)**	**(49)**	**(6)**	**45**
Share of losses of joint ventures	**–**	**–**	**–**	**(1)**	**(1)**

	Unaudited				
	Three months ended 31 March 2013				
	VAS	Online advertising	eCommerce transactions	Others	Total
	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million
Segment revenues	10,666	850	1,914	118	13,548
Gross profit	7,073	346	132	43	7,594
Depreciation	373	31	4	4	412
Amortisation	49	47	–	–	96
Share of profit/(losses) of associates	108	–	(9)	32	131
Share of losses of joint ventures	(12)	–	–	–	(12)

3 Interests in associates

	Unaudited 31 March 2014 RMB'Million	Audited 31 December 2013 RMB'Million
Investments in associates (a)		
- Listed shares	**1,240**	1,426
- Unlisted shares	**22,547**	9,441
	23,787	10,867
Investments in redeemable preference shares of associates (b)	**972**	1,119
Loans to associates (c)	**169**	184
	24,928	12,170

Note:

(a) **Investments in associates**

	Unaudited Three months ended 31 March	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	**10,867**	6,310
Additions ((i), (ii) and (iii))	**13,416**	24
Transfer from available-for-sale financial assets	**50**	–
Share of profit of associates	**45**	131
Share of other comprehensive income of associates	**8**	–
Dividends received from associates	**–**	(8)
Partial disposal of associates	**(192)**	–
Impairment provision (iv)	**(407)**	–
At end of period	**23,787**	6,457

(i) In March 2014, the Group entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com ("JD.com Pre-IPO Subscription"), an online direct sales company operating in the PRC, to purchase 351,678,637 ordinary shares of JD.com, representing 15.0% of the outstanding JD.com ordinary shares immediately after the completion of the JD.com Pre-IPO Subscription, at a consideration of cash, certain eCommerce related businesses and assets of the Group, and 9.9% equity interest in Yixun, with a call option granted to acquire the remaining equity interests held by the Group in Yixun at the higher of RMB800 million and then fair value of the interests.

In addition, the Group entered into a strategic cooperation agreement ("SCA") with JD.com. According to the SCA, the Group would offer level 1 access points at Weixin and Mobile QQ, and other platform support to JD.com. Therefore, the total consideration also includes the fair market value of the support to be provided to JD.com under the SCA. Such support is accounted for as deferred revenue and the amount is amortised over the duration of the SCA.

The total consideration of the investment in JD.com is approximately RMB8,798 million.

On the same day, the Group also entered into an IPO share subscription agreement to agree to subscribe for a further 5.0% of the outstanding JD.com ordinary shares on a post IPO basis immediately after the consummation of the JD.com's IPO.

Since the Group has representative in the board of directors, JD.com is accounted for as an associate of the Group.

(ii) In March 2014, the Group entered into an agreement with E-House to acquire from E-House approximately 15.0% of equity interest of Leju on a fully diluted basis at a cash consideration of USD180 million (equivalent to approximately RMB1,102 million). The transaction was completed in March 2014. On 22 April 2014, the Group subscribed additional shares in Leju concurrently during its IPO to maintain the Group's 15.0% equity interest on a fully diluted basis.

Since the Group has representative in the board of directors, Leju is accounted for as an associate of the Group.

(iii) In addition to the above, the Group also acquired some other associates or made additional investments in existing associates for an aggregate consideration of RMB3,516 million during the three months ended 31 March 2014. They are principally engaged in O2O life information business, group buying transaction services and other businesses.

(iv) During the three months ended 31 March 2014, the Group made an impairment provision of RMB407 million (for three months ended 31 March 2013: Nil) for investments in certain associates based on the results of assessment performed with reference to business performance and recoverable values of these associates.

(b) **Investments in redeemable preference shares of associates**

The Group held certain redeemable preference shares of the associates, which are principally engaged in online community services, online game development and other Internet-related businesses. The redemption prices of the relevant shares are agreed at not less than their original subscription prices.

During the three months ended 31 March 2014, the Group also made an impairment provision amounted to RMB225 million (for three months ended 31 March 2013: Nil) for investments in redeemable preference shares of certain associates with reference to the business performance and recoverable values of the underlying associates.

(c) **Loans to associates**

As at 31 March 2014, the carrying amount of the loans to associates of the Group amounted to RMB169 million (31 December 2013: RMB184 million). The aggregate principal amount of the loans to associates was RMB164 million (31 December 2013: RMB179 million) and was required to be repaid in 2 years. These loans bear interest rates of 4.0% to 6.0% per annum or are interest-free.

4 Available-for-sale financial assets

	Unaudited Three months ended 31 March 2014 RMB'Million	2013 RMB'Million
At beginning of period	**12,515**	5,633
Additions ((a) and (b))	**2,072**	76
Losses from changes in fair value	**(71)**	(590)
Transfer to interests in associates	**(50)**	–
Impairment provision	**(188)**	–
At end of period, all non-current	**14,278**	5,119
Market value of listed securities	**7,048**	3,494

Note:

(a) In January 2014, the Group entered into an agreement to acquire 9.9% ordinary shares in CSC at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). In addition, the Group has a call option to subscribe additional shares of CSC at a cash consideration of HKD857 million (equivalent to approximately RMB680 million) within 2 years after its initial investment in CSC. CSC is a developer and operator of large scale integrated logistics and trade centers in China.

(b) The Group also acquired some other available-for-sale financial assets or made additional investments in some existing available-for-sale financial assets for an aggregate consideration of RMB895 million during the three months ended 31 March 2014. They are principally engaged in Internet-related business and other businesses.

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited 31 March 2014 RMB'Million	Audited 31 December 2013 RMB'Million
0 - 30 days	**1,252**	1,537
31 - 60 days	**1,084**	827
61 - 90 days	**315**	369
Over 90 days	**452**	222
	3,103	2,955

Receivable balances as at 31 March 2014 mainly represented amounts due from telecommunications operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as brand display advertising customers mainly located in the PRC.

While there are no contractual requirements for the telecommunications operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

6 Share option and share award schemes

(a) Share option schemes

The Company has adopted several share option schemes for the purpose of providing incentives and rewards to its directors, executives or officers, employees, consultants and other eligible persons:

(i) Pre-IPO Option Scheme

As at the listing of the Company on 16 June 2004, all options under the Pre-IPO Option Scheme had been granted. The Pre-IPO Option Scheme expired on 31 December 2011.

(ii) Post-IPO Option Scheme I

Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Option Scheme II.

(iii) **Post-IPO Option Scheme II**

Pursuant to the Post-IPO Option Scheme II, the Board may, at its discretion, grant options to any eligible person to subscribe for shares in the Company. The Post-IPO Option Scheme II shall be valid and effective for a period of ten years commencing on its date of adoption.

(iv) **Post-IPO Option Scheme III**

Pursuant to the Post-IPO Option Scheme III, the Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption.

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

	Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2014	**HKD11.25**	**819,266**	**HKD75.69**	**12,648,005**	**HKD158.50**	**1,000,000**	**14,467,271**
Granted	**–**	**–**	**HKD572.60**	**2,307,500**	**–**	**–**	**2,307,500**
Exercised	**HKD11.25**	**(819,224)**	**HKD52.03**	**(1,369,356)**	**–**	**–**	**(2,188,580)**
Lapsed	**HKD14.53**	**(42)**	**HKD116.38**	**(600,000)**	**–**	**–**	**(600,042)**
At 31 March 2014	**–**	**–**	**HKD164.60**	**12,986,149**	**HKD158.50**	**1,000,000**	**13,986,149**
Exercisable as at 31 March 2014	**–**	**–**	**HKD55.82**	**6,698,999**	**–**	**–**	**6,698,999**
At 1 January 2013	HKD11.13	4,596,489	HKD65.50	20,633,097	HKD158.50	1,000,000	26,229,586
Exercised	HKD11.56	(559,943)	HKD53.83	(507,537)	–	–	(1,067,480)
Lapsed	–	–	HKD49.29	(19,032)	–	–	(19,032)
At 31 March 2013	HKD11.07	4,036,546	HKD65.81	20,106,528	HKD158.50	1,000,000	25,143,074
Exercisable as at 31 March 2013	HKD11.07	4,036,546	HKD44.90	10,291,639	–	–	14,328,185

During the three months ended 31 March 2014, 1,000,000 share options were granted to an executive director of the Company (for the three months ended 31 March 2013: no share option was granted to any director of the Company).

(b) **Share award schemes**

The Company has adopted the Share Award Schemes, both of which are managed by the Trustee. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the three months ended 31 March 2014 and 2013 are as follows:

	Number of shares held for the Share Award Schemes	**Number of awarded shares**	**Total**
At 1 January 2014	**1,435,659**	**18,065,996**	**19,501,655**
Purchased and withheld	**31,583**	**–**	**31,583**
Granted	**(1,156,845)**	**1,156,845**	**–**
Lapsed	**351,452**	**(351,452)**	**–**
Vested and transferred	**–**	**(180,597)**	**(180,597)**
At 31 March 2014	**661,849**	**18,690,792**	**19,352,641**
Vested but not transferred as at 31 March 2014			**2,050**
At 1 January 2013	405,230	18,944,442	19,349,672
Purchased and withheld	36,488	–	36,488
Granted	(64,900)	64,900	–
Lapsed	188,610	(188,610)	–
Vested and transferred	–	(181,022)	(181,022)
At 31 March 2013	565,428	18,639,710	19,205,138
Vested but not transferred as at 31 March 2013			5

During the three months ended 31 March 2014, 25,000 awarded shares were granted to three independent non-executive directors of the Company (for the three months ended 31 March 2013: no awarded share was granted to any director of the Company).

7 Borrowings

	Unaudited 31 March 2014 RMB'Million	Audited 31 December 2013 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
- Unsecured (Note)	**5,199**	3,323
Included in current liabilities:		
RMB bank borrowings		
- Unsecured	**145**	150
USD bank borrowings		
- Unsecured	**3,383**	2,134
Current portion of long-term USD bank borrowings		
- Unsecured (Note)	**308**	305
	3,836	2,589
	9,035	5,912

Movement in the borrowings is analysed as follows:

	Unaudited Three months ended 31 March	
	2014 RMB'Million	2013 RMB'Million
At beginning of period	**5,912**	3,183
Additions of bank borrowings	**3,056**	15
Repayments of bank borrowings	**(5)**	(319)
Currency translation differences	**72**	(8)
At end of period	**9,035**	2,871

Note:

The aggregate principal amount of long-term USD bank borrowings was USD895 million. Applicable interest rates are at LIBOR plus 1.05% to 1.97% per annum.

8 Long-term notes payable

On 12 December 2011, the Company issued long-term notes (the "2011 Notes") with an aggregate principal amount of USD600 million for general corporate purposes. The 2011 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2011 Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the "2012 Notes") with an aggregate principal amount of USD600 million for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2012 Notes are listed on the Stock Exchange and will mature on 5 March 2018.

On 10 September 2013, the Company issued another long-term notes (the "2013 Notes") with an aggregate principal amount of USD300 million for general corporate purposes. The 2013 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2013 Notes are non-publicly issued and will mature on 10 September 2015.

As at 31 March 2014, the carrying amount of these notes was RMB9,232 million (31 December 2013: RMB9,141 million).

9 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 31 March 2014 RMB'Million	Audited 31 December 2013 RMB'Million
0 - 30 days	**4,668**	4,063
31 - 60 days	**1,059**	1,147
61 - 90 days	**838**	366
Over 90 days	**1,441**	1,104
	8,006	6,680

10 Other gains, net

	Unaudited Three months ended 31 March	
	2014	2013
	RMB'Million	RMB'Million
Gains on deemed disposals/disposals of investees and business (Note)	**2,717**	–
Subsidies and tax rebates	**7**	41
Dividend income	**5**	438
Impairment provision for investees	**(820)**	–
Donation to Tencent Charity Fund	**(150)**	(120)
Others	**(152)**	(8)
	1,607	351

Note:

The disposal gain recognised in "Other gains/(losses)" for the disposal of certain eCommerce related business ("Transferred Business") of the Group, which forms as part of the investment consideration for the investment in JD.com (Note 3(a)(i)), was RMB1,942 million, being the difference between the consideration for the Transferred Business and the net asset value of the transferred equity interests and assets at completion of the disposal of the Transferred Business.

11 Expenses by nature

	Unaudited Three months ended 31 March	
	2014	2013
	RMB'Million	RMB'Million
Employee benefits expenses (a)	**3,244**	2,419
Content costs and agency fees (b)	**2,341**	1,933
Cost of merchandise sold	**2,352**	1,730
Mobile and telecommunications charges and bandwidth and server custody fees	**1,208**	991
Promotion and advertising expenses	**1,305**	604
Depreciation of fixed assets (a)	**704**	560
Amortisation of intangible assets (b)	**275**	162
Operating lease rentals in respect of office buildings	**256**	204
Travelling and entertainment expenses	**96**	70

Note:

(a) Research and development expenses for the three months ended 31 March 2014 were RMB1,512 million (for the three months ended 31 March 2013: RMB1,200 million), which included employee benefit expenses of RMB1,201 million and depreciation of fixed assets of RMB150 million for the three months ended 31 March 2014 (for the three months ended 31 March 2013: RMB987 million and RMB125 million respectively). No research and development expenses had been capitalised for the three months ended 31 March 2014 and 2013.

(b) Amortisation expense of licenses and licensed online contents were included in amortisation of intangible assets.

12 Income Tax expenses

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

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

The Group was not subject to any taxation in the Cayman Islands and British Virgin Islands for the three months ended 31 March 2014 and 2013.

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three months ended 31 March 2014 and 2013.

(c) PRC corporate income tax

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the three months ended 31 March 2014 and 2013, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate is 25% for domestic and foreign enterprise in 2014.

In 2011, certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. As at 31 March 2014, these subsidiaries were in the process of renewing such entitlements by applying to the relevant government authorities. The directors of the Company expect that they will continue to be approved as High and New Technology Enterprise. As such, CIT rate of 15% was adopted by these subsidiaries in accruing their CIT for the three months ended 31 March 2014. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in 2013 and 2014 were further reduced to 10%.

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

(d) United States corporate income tax

United States CIT provision was provided for the three months ended 31 March 2014 and 2013 for the entities within the Group which were incorporated in the US with estimated assessable profits, at applicable tax rate of 36%.

(e) Corporate income tax in other countries

CIT provision has been provided for the three months ended 31 March 2014 and 2013 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35%.

(f) PRC withholding tax

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. Hence, the Group used 5% to accrue the withholding tax for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

The income tax expense of the Group for the three months ended 31 March 2014 and 2013 are analysed as follows:

	Unaudited Three months ended 31 March	
	2014	2013
	RMB'Million	RMB'Million
Current tax	**424**	902
Deferred income tax	**740**	127
	1,164	1,029

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three months ended 31 March 2014 and 2013, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	Unaudited Three months ended 31 March	
	2014	2013
	RMB'Million	RMB'Million
Profit before income tax	**7,596**	5,100
Share of profit of associates and joint ventures	**(44)**	(119)
	7,552	4,981
Tax calculated at a tax rate of 25%	**1,888**	1,245
Effects of different tax rates applicable to different subsidiaries of the Group	**(1,653)**	(426)
Effects of tax holiday on assessable profit of subsidiaries	**(64)**	(22)
Income not subject to tax	**–**	(36)
Expenses not deductible for tax purposes	**250**	74
Withholding tax on earnings expected to be remitted by PRC subsidiaries	**450**	142
Unrecognised deferred income tax assets	**258**	52
Others	**35**	–
Income tax expense	**1,164**	1,029

13 EPS

(a) Basic

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

	Unaudited Three months ended 31 March	
	2014	2013
Profit attributable to equity holders of the Company (RMB'Million)	**6,457**	4,044
Weighted average number of ordinary shares in issue (million shares)	**1,845**	1,835
Basic EPS (RMB per share)	**3.500**	2.204

(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 months ended 31 March 2014, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited Three months ended 31 March	
	2014	2013
Profit attributable to equity holders of the Company (RMB'Million)	**6,457**	4,044
Weighted average number of ordinary shares in issue (million shares)	**1,845**	1,835
Adjustments for share options (million shares)	**10**	19
Adjustments for awarded shares (million shares)	**17**	13
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**1,872**	1,867
Diluted EPS (RMB per share)	**3.449**	2.166

14 Dividends

A final dividend in respect of the year ended 31 December 2013 of HKD1.20 per share (2012: HKD1.00 per share) was proposed pursuant to a resolution passed by the Board on 19 March 2014 and subject to the approval of the shareholders at the 2014 AGM. The Interim Financial Information does not reflect this dividend payable.

The Board did not propose any interim dividend for the three months ended 31 March 2014 (for the three months ended 31 March 2013: Nil).

15 Subsequent events

(a) Establishment of USD5,000 million Global Medium Term Note Programme (the "Programme")

On 10 April 2014, the Company established the Programme under which it may issue medium term notes in series of aggregate principal amount of up to USD5,000 million (or its equivalent in other currencies) to professional investors. The Programme is listed on the Stock Exchange. The Company would treat the Programme as a platform to enhance its flexibility and efficiency for future funding or capital management from a medium to long term perspective.

On 29 April 2014, the Company issued two tranches of senior notes (the "Notes") with an aggregate principal amount of USD2,500 million under the Programme, comprising USD500 million 2.000% senior notes due 2017 and USD2,000 million 3.375% senior notes due 2019. The net proceeds from the issuance of the Notes amounted to approximately USD2,488 million (equivalent to approximately RMB15,306 million) after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance.

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

(b) Proposed share subdivision

Pursuant to a resolution of the Board of the Company passed on 19 March 2014, a share subdivision plan was proposed, under which each of the existing issued and unissued ordinary shares of the Company of HKD0.0001 each would be sub-divided into five shares of HKD0.00002 each. As at the time the Board approved this Interim Financial Information, the proposal is subject to the approval of the shareholders of the Company at the 2014 AGM and the approval from the Stock Exchange and had not been effective.

(c) Investment in NavInfo

In April 2014, the Group entered into an agreement to acquire 11.28% of shares in NavInfo at a total consideration of RMB1,173 million. NavInfo is a leading provider of digital map, telematics and dynamic traffic information services as well as geography-related business intelligence solutions in China. The transaction is still subject to approval by relevant national authorities.

OTHER INFORMATION

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2014.

Employee and Remuneration Policies

As at 31 March 2014, the Group had 26,941 employees (31 March 2013: 24,649). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the three months ended 31 March 2014 was RMB3,244 million (for the three months ended 31 March 2013: RMB2,419 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 months ended 31 March 2014.

Compliance with the Corporate Governance Code

Save as disclosed in the 2013 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 2014 to 31 March 2014.

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

APPRECIATION

On behalf of the Board, I would like to express my sincerest appreciation to our employees for their hardwork, valuable dedication and contributions, which are fundamental for the Group's success and future development. I would also like to extend my heartfelt gratitude to our shareholders and stakeholders for their continued trust, support and steadfast confidence in us. Together, we will continue to build a prosperous ecosystem for the Internet industry.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 14 May 2014

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

Executive Directors:
Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:
Jacobus Petrus Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:
Li Dong Sheng, Iain Ferguson Bruce and Ian Charles Stone.

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

DEFINITION

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

Term	Definition
"2014 AGM"	the annual general meeting of the Company to be held on 14 May 2014
"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
"China Mobile"	China Mobile Communications Corporation
"China Telecom"	China Telecommunications Corporation
"China Unicom"	China United Network Communications Group Company Limited
"ChinaVision"	ChinaVision Media Group Limited, a limited liability company incorporated in Bermuda and the shares of which are listed on the Stock Exchange
"CIT"	corporate income tax
"CJ Games"	CJ Games Corporation, a company incorporated under the laws of the Republic of Korea
"Company"	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
"comScore"	comScore Inc.
"CPM"	cost per thousand impression

"CSC"	China South City Holdings Limited, a limited liability company incorporated in Hong Kong and the shares of which are listed on the Stock Exchange
"Dianping"	Dianping Holdings Ltd., a limited liability company incorporated in the Cayman Islands
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"E-House"	E-House (China) Holdings Limited, a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the New York Stock Exchange
"EPS"	earnings per share
"GAAP"	Generally Accepted Accounting Principles
"Group"	the Company and its subsidiaries
"HKD"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region, the PRC
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards
"IPO"	initial public offering
"iResearch"	iResearch Consulting Group
"JD.com"	JD.com, Inc., a limited liability company incorporated in the Cayman Islands
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Leju"	Leju Holdings Limited, a limited liability company incorporated in the Cayman Islands
"M&A"	mergers and acquisitions

"Mail.ru"	Mail.ru Group Limited
"MAU"	monthly active user accounts
"Moody's"	Moody's Investors Service, Inc.
"NavInfo"	NavInfo Co., Ltd., a limited liability company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange
"O2O"	online to offline
"PC(s)"	personal computer(s)
"PCU"	peak concurrent user accounts
"Post-IPO Option Scheme I"	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
"Post-IPO Option Scheme II"	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
"Post-IPO Option Scheme III"	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
"PRC" or "China"	the People's Republic of China
"Pre-IPO Option Scheme"	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
"RMB"	the lawful currency of the PRC
"Share Award Schemes"	the share award scheme adopted by the Company on 13 December 2007, as amended; and the restricted share award scheme adopted by the Company on 13 November 2013
"Sogou"	Sogou Inc., a limited liability company incorporated in the Cayman Islands
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tencent Charity Fund"	a charity fund established by the Group

"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"United States" or "US"	the United States of America
"USD"	the lawful currency of the United States
"VAS"	value-added services
"Yixun"	Shanghai Icson E-Commerce Development Company Limited (上海易迅電子商務發展有限公司), a company formed under the laws of the PRC, a subsidiary of the Group