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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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2015. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

| | Year ended 31 December | | |
|--|-------------------------------------|--------|------------------------|
| | 2015 | 2014 | Year-on-year change |
| | (RMB in millions, unless specified) | | |
| Revenues | 102,863 | 78,932 | 30% |
| Gross profit | 61,232 | 48,059 | 27% |
| Operating profit | 40,627 | 30,542 | 33% |
| Profit for the year | 29,108 | 23,888 | 22% |
| Profit attributable to equity holders of the Company | 28,806 | 23,810 | 21% |
| Non-GAAP profit attributable to equity holders of the Company* | 32,410 | 24,737 | 31% |
| EPS (RMB per share) | | | |
| - basic | 3.097 | 2.579 | 20% |
| - diluted | 3.055 | 2.545 | 20% |
| Non-GAAP EPS (RMB per share)* | | | |
| - basic | 3.485 | 2.680 | 30% |
| - diluted | 3.437 | 2.644 | 30% |

| | Unaudited | | | | |
|--|-------------------------------------|----------|---------|-----------|------------|
| | Three months ended | | | | |
| | 31 | 31 | Year- | 30 | Quarter- |
| | December | December | on-year | September | on-quarter |
| | 2015 | 2014 | change | 2015 | change |
| | (RMB in millions, unless specified) | | | | |
| Revenues | 30,441 | 20,978 | 45% | 26,594 | 14% |
| Gross profit | 17,780 | 12,646 | 41% | 15,580 | 14% |
| Operating profit | 10,888 | 7,394 | 47% | 10,331 | 5% |
| Profit for the period | 7,198 | 5,954 | 21% | 7,584 | -5% |
| Profit attributable to equity holders of the Company | 7,164 | 5,860 | 22% | 7,445 | -4% |
| Non-GAAP profit attributable to equity holders of the Company* | 8,953 | 6,981 | 28% | 8,280 | 8% |
| EPS (RMB per share) | | | | | |
| - basic | 0.769 | 0.632 | 22% | 0.800 | -4% |
| - diluted | 0.759 | 0.625 | 21% | 0.792 | -4% |
| Non-GAAP EPS (RMB per share)* | | | | | |
| - basic | 0.961 | 0.752 | 28% | 0.890 | 8% |
| - diluted | 0.949 | 0.744 | 28% | 0.881 | 8% |

* In 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.47 per share (2014: HKD0.36 per share) for the year ended 31 December 2015, subject to the approval of the shareholders at the 2016 AGM. Such proposed dividend will be payable on 2 June 2016 to the shareholders whose names appear on the register of members of the Company on 25 May 2016.

BUSINESS REVIEW AND OUTLOOK

1. Internet Industry Trends

In 2015, the Internet further penetrated everyday life, providing users with new value and additional convenience. Messaging and social networking continued to rank as the highest time spent and widest penetration activities on smart phones, and evolved into increasingly relevant content discovery media. Search queries moved primarily to mobile, and search remained an important content discovery tool, along with application stores. Online shopping became increasingly widespread, especially in lower-tier cities, and eCommerce transaction volumes sustained healthy growth rates. Online advertising activity shifted decisively from PC to mobile, with particular growth in areas such as performance advertising on social networks, pre-roll advertising in video services, and in-feed advertising in news services. Users proved increasingly willing to pay for digital content such as movies, TV series, and music. Mid/Hard-core smart phone games, including PC game franchises moving to smart phones, boosted game industry revenue.

China Internet companies in sectors such as ride-hailing, classified listings, group-buying, and online travel services competed with heightened intensity in 2015, leading to rapid user growth but reduced or negative profitability. Consequently, several leading companies in these sectors consolidated with competitors, creating a wave of merger and acquisition activities. Offline-to-Online transaction volumes increased, which, together with the emergence of person-to-person payment transactions, contributed to substantial growth in online payment volumes.

2. Company Strategic Highlights

In 2015, we conducted a series of initiatives to enhance our ongoing businesses in China:

- *Social platforms*: we sustained user growth of Mobile QQ year-on-year, particularly among young users, via promoting entertainment-driven and community-based activities, while expanding the user base of Weixin, via connecting a diversified product and service portfolio to a broad range of users. Our performance-based social advertising revenues more than doubled year-on-year.
- *Online games*: we reinforced our leadership in the smart phone game market via introducing new titles based on proven IP, adding new game genres, leveraging our PC client game operational expertise, and developing player communities.

- *Media & content:* we sustained traffic leadership in multiple online media categories, such as video, sports, music, news and literature, via partnering with premium content providers, such as the NBA, HBO, Paramount, Warner Music, and Sony Music, and investing in original content. We grew our digital content subscription services via leveraging our social platforms and optimizing our premium business models.

During the year, we further executed our “Connection” strategy, bringing our own and our partners’ products and services to our consumers via cultivating an ecosystem around our core communication and social platforms. Key initiatives for our “Internet-Plus” ecosystem included:

- Enriching products and services available within our platforms. For example, we introduced personal micro-loan products and municipal services, such as visa applications, to Mobile QQ and Weixin.
- Promoting our online payment services through enriched payment scenarios, increasing MAU of our mobile payment services by over 7 times year-on-year.
- Growing our mobile utility services, including security, browser and application store, strengthening infrastructural supports to our mobile ecosystem.
- Investing in equity stakes in leading companies in related Internet verticals, such as Internet Plus Holdings, to provide best-in-class services to our users.

3. Company Divisional and Product Highlights

Operating Information

| | As at 31 December 2015 | As at 31 December 2014 | Year- on-year change | As at 30 September 2015 | Quarter- on-quarter change |
|--|---------------------------------------|------------------------------|----------------------------|-------------------------------|----------------------------------|
| | (in millions, unless specified) | | | | |
| MAU of QQ | 853.1 | 815.3 | 4.6% | 859.7 | -0.8% |
| Smart device MAU of QQ | 641.5 | 576.1 | 11.4% | 639.1 | 0.4% |
| PCU of QQ (for the quarter) | 241.1 | 217.4 | 10.9% | 239.1 | 0.8% |
| Combined MAU of Weixin and WeChat | 697.0 | 500.0 | 39.4% | 649.5 | 7.3% |
| MAU of Qzone | 640.1 | 654.1 | -2.1% | 653.1 | -2.0% |
| Smart device MAU of Qzone | 572.9 | 539.8 | 6.1% | 576.8 | -0.7% |
| Fee-based VAS registered subscriptions | 94.6 | 83.7 | 13.0% | 88.5 | 6.9% |

Key Platforms

- For QQ, smart device MAU increased by 11% year-on-year to 642 million at the end of 2015, while overall PCU increased by 11% year-on-year to 241 million. QQ Group user engagement benefited from a revenue-sharing scheme introduced to incentivize group creators. Our QQ Wallet payment service gained popularity with approximately 6 billion red envelopes exchanged via QQ Wallet within six days during the Lunar New Year holidays in early 2016.

- For Qzone, smart device MAU increased by 6% year-on-year to 573 million at the end of 2015. User activity benefited from enhanced features in areas such as sticker sharing and photo album editing.
- For Weixin and WeChat together, MAU reached 697 million at the end of 2015, representing year-on-year growth of 39%. Official Accounts became a leading platform connecting users to content creators, merchants and advertisers. Weixin Pay also became increasingly popular. The volume of red envelopes exchanged via Weixin Pay exceeded 32 billion within six days during the Lunar New Year holidays in early 2016, growing by 9 times year-on-year.

With increasing popularity of Weixin Pay, bank handling fees related to C2C payment transactions via Weixin Pay, mainly arising from money transfers, increased significantly, amounting to over RMB300 million (net of related revenue we received from users) for the month of January 2016. To manage these cost pressures, we introduced a new policy with effect from 1 March 2016. Under this new policy, we charge users Weixin Pay balance withdrawal fees if the accumulated amount of money a user withdraws from her Weixin Pay wallet to her bank account exceeds a certain amount. In parallel, we no longer charge users on Weixin Pay C2C money transfers. We will continue to promote Weixin Pay via encouraging users to consume products and services embedded in Weixin, as well as those provided by our online and offline partners.

Value-Added Services

In 2015, our social networks business achieved 30% year-on-year revenue growth as we improved our digital content subscription services, QQ Membership subscription services, and virtual item sales. Looking forward, we will continue to optimize our user experience and add premium content to our subscription services, such as video and music, and to our literature service.

In online games, we extended our market leadership in both PC client game and smart phone game markets.

- For PC client games, we achieved low double-digit year-on-year revenue growth thanks to increased contributions from key titles and new games launched in 2015.
- For smart phone games, we generated 53% year-on-year revenue growth on a gross-to-gross basis, with approximately RMB21.3 billion revenue in 2015. We achieved or retained leadership in multiple genres via utilizing proven IPs, extending popular PC game genres to smart phones, and developing player communities.

Looking forward, we aim to broaden smart phone game activity in China into new game genres, following the precedent of our category expansion in PC games.

Our cloud service business achieved over 100% year-on-year revenue growth as we promoted our services to key enterprise customers from a range of verticals such as eCommerce, O2O services, online games, online video and Internet finance. We will continue investing in enhancing our cloud services, supporting our private and public sector partners in fulfilling their “Internet-Plus” related initiatives.

Online Advertising

In 2015, our online advertising business achieved 110% year-on-year revenue growth, mainly reflecting an enlarged advertiser base and more traffic on our platforms. Over 65% of our total advertising revenues was generated on mobile platforms during the year.

Looking ahead, we will continue to invest in our brand advertising business, while aiming to grow our performance-based advertising business via:

- Enhancing advertiser tools, such as self-service advertising platforms and location-based targeted advertising services;
- Leveraging new advertising formats, such as auto-play video on Weixin Moments and eCoupons on Official Accounts; and
- Customizing advertising solutions for specific advertiser categories.

4. Company Financial Performance

Year Ended 31 December 2015

In 2015, revenues increased by 30% to RMB102.9 billion. Excluding the eCommerce business, revenues increased by 38% to RMB102.2 billion.

- VAS. Revenues from our VAS business increased by 27% to RMB80.7 billion. Our online game business achieved healthy growth in revenues, mainly driven by smart phone games, key PC titles and new PC client games launched in 2015. Our social networks revenues expanded, reflecting increased contributions from digital content subscription services, QQ Membership subscription services, and virtual item sales.

- *Online advertising.* Revenues from our online advertising business increased by 110% to RMB17.5 billion. Performance-based advertising revenues grew by 172% to RMB8.7 billion, mainly driven by revenue growth from Mobile Qzone, the full year impact of advertising revenues from Weixin Official Accounts, as well as contributions from newly launched advertising services on Weixin Moments. Brand display advertising revenues grew by 72% to RMB8.8 billion, mainly driven by increased traffic and advertising on mobile media platforms such as Tencent Video and Tencent News.

Profit attributable to equity holders of the Company increased by 21% to RMB28.8 billion. Non-GAAP profit attributable to equity holders of the Company increased by 31% to RMB32.4 billion.

Fourth Quarter of 2015

In the fourth quarter of 2015, revenues increased by 45% year-on-year to RMB30,441 million. Excluding the eCommerce transactions business, revenues increased by 47% year-on-year to RMB30,242 million.

- *VAS.* Revenues from our VAS business increased by 35% year-on-year to RMB23,068 million. Our online game business achieved healthy growth in revenues, primarily driven by our expanded smart phone game portfolio, our major PC titles and new PC client games launched in 2015. Our social networks revenues grew by 37% to RMB7,097 million, reflecting revenue growth from digital content subscription services, QQ Membership subscription services, and item sales within our social networking platforms.
- *Online advertising.* Revenues from our online advertising business increased by 118% year-on-year to RMB5,733 million. Performance-based advertising revenues grew by 157% to RMB2,916 million, mainly reflecting revenue growth from Mobile Qzone, Weixin Official Accounts, and newly launched advertising services on Weixin Moments. Brand display advertising revenues grew by 89% to RMB2,817 million, reflecting higher contributions from our mobile media platforms such as Tencent Video and Tencent News.

Profit attributable to equity holders of the Company increased by 22% year-on-year to RMB7,164 million. Non-GAAP profit attributable to equity holders of the Company increased by 28% year-on-year to RMB8,953 million.

5. Company Outlook and Strategies for 2016

During 2016, we intend to develop our ongoing businesses and further cultivate our mobile ecosystem via initiatives including:

- Investing in and innovating around our core communications and social platforms, especially in areas such as group messaging and video-format content;
- Developing new and emerging smart phone game genres, via leveraging our PC game experiences, smart phone game player communities, and relationships with leading game developers;
- Expanding our advertising business, via enhancing our advertising technologies, such as data-mining and look-alike user targeting, enlarging our long-tail advertiser base, and adding more mobile advertising inventory;
- Growing our digital content businesses, including online video, music and literature, via providing exclusive content to our users and leveraging our users' social relationships; and
- Enriching our payment services and financial products platform.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended 31 December 2015 Compared to Year Ended 31 December 2014

The following table sets forth the comparative figures for the years ended 31 December 2015 and 2014:

| | Year ended 31 December | |
|--|-------------------------------|-----------------|
| | 2015 | 2014 |
| | (RMB in millions) | |
| Revenues | 102,863 | 78,932 |
| Cost of revenues | <u>(41,631)</u> | <u>(30,873)</u> |
| Gross profit | 61,232 | 48,059 |
| Interest income | 2,327 | 1,676 |
| Other gains, net | 1,886 | 2,759 |
| Selling and marketing expenses | (7,993) | (7,797) |
| General and administrative expenses | <u>(16,825)</u> | <u>(14,155)</u> |
| Operating profit | 40,627 | 30,542 |
| Finance costs, net | (1,618) | (1,182) |
| Share of losses of associates and joint ventures | <u>(2,793)</u> | <u>(347)</u> |
| Profit before income tax | 36,216 | 29,013 |
| Income tax expense | <u>(7,108)</u> | <u>(5,125)</u> |
| Profit for the year | <u>29,108</u> | <u>23,888</u> |
| Attributable to: | | |
| Equity holders of the Company | 28,806 | 23,810 |
| Non-controlling interests | <u>302</u> | <u>78</u> |
| | <u>29,108</u> | <u>23,888</u> |
| Non-GAAP profit attributable to equity holders of the Company* | <u>32,410</u> | <u>24,737</u> |

* In 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.

Revenues. Revenues increased by 30% to RMB102.9 billion for the year ended 31 December 2015 on a year-on-year basis. Excluding the eCommerce business, revenues increased by 38% to RMB102.2 billion. The following table sets forth our revenues by line of business for the years ended 31 December 2015 and 2014:

| | Year ended 31 December | | | |
|-----------------------|-------------------------------------|----------------------------|----------------------|----------------------------|
| | 2015 | | 2014 | |
| | Amount | % of total revenues | Amount | % of total revenues |
| | (RMB in millions, unless specified) | | | |
| VAS ⁽¹⁾ | 80,669 | 78% | 63,310 | 80% |
| Online advertising | 17,468 | 17% | 8,308 | 11% |
| Others ⁽²⁾ | 4,726 | 5% | 7,314 | 9% |
| Total revenues | <u>102,863</u> | <u>100%</u> | <u>78,932</u> | <u>100%</u> |

Note:

⁽¹⁾ We recognise revenues from smart phone games we publish exclusively on a gross basis from the fourth quarter of 2014 onward, primarily to reflect changes in our co-operation models that qualify us the principal, rather than agent, for certain licensed titles. Correspondingly, we record revenue sharing with third-party developers and channel costs of these titles in costs of revenues, instead of treating them as contra-revenue items. Net versus gross revenue recognition does not impact the Group's profits.

⁽²⁾ In light of the reduction in size of our eCommerce business, we include eCommerce in the "Others" business segment in our financial statements from the first quarter of 2015 onwards. Comparative figures have been reclassified to conform to the new presentation.

— Revenues from our VAS business increased by 27% to RMB80,669 million for the year ended 31 December 2015 on a year-on-year basis. Online games revenues increased by 26% to RMB56,587 million. The increase primarily reflected growth in revenues from smart phone games, mainly driven by our diversified game portfolio and, to a lesser extent, the impact of the aforementioned adoption of gross revenue recognition. Revenues from PC client games also contributed to the increase, primarily driven by our key titles and new games launched in 2015. Social networks revenues grew by 30% to RMB24,082 million. The increase mainly reflected higher subscription revenues from digital content subscription services and QQ Membership, as well as revenue growth from virtual item sales. If gross revenue recognition for smart phone games had been adopted for the year ended 31 December 2014, revenues from our VAS business would have increased by 24%, of which online games

revenues would have increased by 23% and social networks revenues would have increased by 27% for the year ended 31 December 2015.

- Revenues from our online advertising business increased by 110% to RMB17,468 million for the year ended 31 December 2015 on a year-on-year basis. Performance-based advertising revenues grew by 172% to RMB8,693 million, mainly driven by revenue growth from Mobile Qzone, the full year impact of advertising revenues from Weixin Official Accounts, as well as contributions from newly launched advertising services on Weixin Moments. Brand display advertising revenues increased by 72% to RMB8,775 million, primarily driven by higher revenues from our mobile media platforms such as Tencent Video and Tencent News, which benefited from more traffic.

Cost of revenues. Cost of revenues increased by 35% to RMB41,631 million for the year ended 31 December 2015 on a year-on-year basis. The increase primarily reflected greater sharing and content costs, channel costs, as well as bank handling fees on C2C money transfers, partially offset by a decline in cost of merchandise sold due to decreased revenues from principal eCommerce transactions. As a percentage of revenues, cost of revenues increased to 40% for the year ended 31 December 2015 from 39% for the year ended 31 December 2014. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2015 and 2014:

| | Year ended 31 December | | | |
|------------------------|------------------------|-----------------------|---------------|-----------------------|
| | 2015 | | 2014 | |
| | Amount | % of segment revenues | Amount | % of segment revenues |
| VAS | 28,422 | 35% | 20,619 | 33% |
| Online advertising | 8,941 | 51% | 4,660 | 56% |
| Others* | <u>4,268</u> | 90% | <u>5,594</u> | 76% |
| Total cost of revenues | <u>41,631</u> | | <u>30,873</u> | |

* Cost of revenues for “Others” business segment include cost of merchandise sold of principal eCommerce transactions and other eCommerce costs of revenue since the first quarter of 2015. Comparative figures have been reclassified to conform to the new presentation.

- Cost of revenues for our VAS business increased by 38% to RMB28,422 million for the year ended 31 December 2015 on a year-on-year basis. The increase mainly reflected: (1) greater sharing and content costs (especially for licensed smart phone games) and channel costs; (2) the impact of the aforementioned adoption of gross revenue recognition; and (3) higher bandwidth and server custody fees. If gross revenue recognition for smart phone games had been adopted for the year ended 31 December of 2014, cost of revenues for our VAS business would have increased by 27%.
- Cost of revenues for our online advertising business increased by 92% to RMB8,941 million for the year ended 31 December 2015 on a year-on-year basis. The increase primarily reflected greater traffic acquisition costs, investment in video content, as well as commissions payable to advertising agencies.
- Cost of revenues for our other businesses decreased by 24% to RMB4,268 million for the year ended 31 December 2015 on a year-on-year basis. The decrease was mainly driven by a decline in cost of merchandise sold due to lower revenues from principal eCommerce transactions, partly offset by greater bank handling fees on C2C money transfers.

Other gains, net. Other gains, net decreased by 32% to RMB1,886 million for the year ended 31 December 2015 on a year-on-year basis. The decrease mainly reflected a decline in net disposal/deemed disposal gains arising from certain investee companies, partly offset by fair value gains on options we own in an investee company, which we recognised in the fourth quarter of 2015.

Selling and marketing expenses. Selling and marketing expenses increased by 3% to RMB7,993 million for the year ended 31 December 2015 on a year-on-year basis. The increase mainly reflected greater staff costs, partly offset by lower fulfillment expenses due to a decrease in revenues from principal eCommerce transactions. Promotion and advertising expenses were broadly stable, primarily reflecting higher marketing spending on products and platforms such as online games, online literature and mobile utilities, largely offset by reduced subsidies to Weixin Pay users for ride-hailing and decreased marketing expenses for WeChat. As a percentage of revenues, selling and marketing expenses decreased to 8% for the year ended 31 December 2015 from 10% for the year ended 31 December 2014.

General and administrative expenses. General and administrative expenses increased by 19% to RMB16,825 million for the year ended 31 December 2015 on a year-on-year basis. The increase was primarily driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 16% for the year ended 31 December 2015 from 18% for the year ended 31 December 2014.

Finance costs, net. Finance costs, net increased by 37% to RMB1,618 million for the year ended 31 December 2015 on a year-on-year basis. The increase mainly reflected greater interest expense due to higher amount of indebtedness.

Income tax expense. Income tax expense increased by 39% to RMB7,108 million for the year ended 31 December 2015 on a year-on-year basis. The increase primarily reflected higher profit before income tax, partially offset by a decrease in withholding taxes.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 21% to RMB28,806 million for the year ended 31 December 2015 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 31% to RMB32,410 million for the year ended 31 December 2015 on a year-on-year basis.

Fourth Quarter of 2015 Compared to Fourth Quarter of 2014

The following table sets forth the comparative figures for the fourth quarter of 2015 and the fourth quarter of 2014:

| | Unaudited | |
|--|---------------------------|--------------------|
| | Three months ended | |
| | 31 December | 31 December |
| | 2015 | 2014 |
| | (RMB in millions) | |
| Revenues | 30,441 | 20,978 |
| Cost of revenues | <u>(12,661)</u> | <u>(8,332)</u> |
| Gross profit | 17,780 | 12,646 |
| Interest income | 649 | 443 |
| Other gains, net | 249 | 343 |
| Selling and marketing expenses | (3,024) | (2,063) |
| General and administrative expenses | <u>(4,766)</u> | <u>(3,975)</u> |
| Operating profit | 10,888 | 7,394 |
| Finance costs, net | (363) | (273) |
| Share of losses of associates and joint ventures | <u>(1,329)</u> | <u>(275)</u> |
| Profit before income tax | 9,196 | 6,846 |
| Income tax expense | <u>(1,998)</u> | <u>(892)</u> |
| Profit for the period | <u>7,198</u> | <u>5,954</u> |
| Attributable to: | | |
| Equity holders of the Company | 7,164 | 5,860 |
| Non-controlling interests | <u>34</u> | <u>94</u> |
| | <u>7,198</u> | <u>5,954</u> |
| Non-GAAP profit attributable to equity holders of the Company* | <u>8,953</u> | <u>6,981</u> |

* In 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.

Revenues. Revenues increased by 45% to RMB30,441 million for the fourth quarter of 2015 on a year-on-year basis. Excluding the eCommerce business, revenues increased by 47% to RMB30,242 million. The following table sets forth our revenues by line of business for the fourth quarter of 2015 and the fourth quarter of 2014:

| | Unaudited | | | |
|--------------------|--|--------------------|-------------------------|-----------------|
| | Three months ended | | | |
| | 31 December 2015 | | 31 December 2014 | |
| | % of total | | % of total | |
| | Amount | revenues | Amount | revenues |
| | (RMB in millions, unless specified) | | | |
| VAS | 23,068 | 76% | 17,137 | 82% |
| Online advertising | 5,733 | 19% | 2,627 | 12% |
| Others* | <u>1,640</u> | <u>5%</u> | <u>1,214</u> | <u>6%</u> |
| Total revenues | <u>30,441</u> | <u>100%</u> | <u>20,978</u> | <u>100%</u> |

* In light of the reduction in size of our eCommerce business, we include eCommerce in the “Others” business segment in our financial statements from the first quarter of 2015 onwards. Comparative figures have been reclassified to conform to the new presentation.

- Revenues from our VAS business increased by 35% year-on-year to RMB23,068 million for the fourth quarter of 2015. Online games revenues grew by 33% to RMB15,971 million. The increase was primarily driven by revenue growth from smart phone games, mainly due to our expanded game portfolio, as well as higher revenues from PC client games, primarily due to our key titles and new games launched in 2015. Social networks revenues increased by 37% to RMB7,097 million. The increase was mainly driven by growth in subscription revenues from digital content subscription services and QQ Membership, as well as higher revenues from virtual item sales.
- Revenues from our online advertising business increased by 118% year-on-year to RMB5,733 million for the fourth quarter of 2015. Performance-based advertising revenues increased by 157% to RMB2,916 million, mainly reflecting revenue growth from Mobile Qzone and Weixin Official Accounts, as well as contributions from newly launched advertising services on Weixin Moments. Brand display advertising revenues grew by 89% to RMB2,817 million, primarily reflecting higher contributions from our mobile media platforms such as Tencent Video and Tencent News.

Cost of revenues. Cost of revenues increased by 52% year-on-year to RMB12,661 million for the fourth quarter of 2015. The increase mainly reflected greater sharing and content costs, channel costs, and bank handling fees on C2C money transfers. As a percentage of revenues, cost of revenues increased to 42% for the fourth quarter of 2015 from 40% for the fourth quarter of 2014. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2015 and the fourth quarter of 2014:

| | Unaudited | | | |
|------------------------|-------------------------------------|-----------------|-------------------------|-----------------|
| | Three months ended | | | |
| | 31 December 2015 | | 31 December 2014 | |
| | % of | | % of | |
| | segment | | segment | |
| | Amount | revenues | Amount | revenues |
| | (RMB in millions, unless specified) | | | |
| VAS | 8,383 | 36% | 6,168 | 36% |
| Online advertising | 2,794 | 49% | 1,577 | 60% |
| Others* | <u>1,484</u> | 90% | <u>587</u> | 48% |
| Total cost of revenues | <u><u>12,661</u></u> | | <u><u>8,332</u></u> | |

* Cost of revenues for “Others” business segment include cost of merchandise sold of principal eCommerce transactions and other eCommerce costs of revenue since the first quarter of 2015. Comparative figures have been reclassified to conform to the new presentation.

- Cost of revenues for our VAS business increased by 36% to RMB8,383 million for the fourth quarter of 2015 on a year-on-year basis. The increase was mainly driven by higher sharing and content costs (especially for licensed smart phone games) and channel costs, as well as bandwidth and server custody fees.
- Cost of revenues for our online advertising business increased by 77% to RMB2,794 million for the fourth quarter of 2015 on a year-on-year basis. The increase was primarily driven by higher investment in video content, commissions payable to advertising agencies, as well as traffic acquisition costs.
- Cost of revenues for our other businesses increased by 153% to RMB1,484 million for the fourth quarter of 2015 on a year-on-year basis. The increase was mainly driven by greater bank handling fees on C2C money transfers.

Other gains, net. Other gains, net decreased by 27% to RMB249 million for the fourth quarter of 2015 on a year-on-year basis. During the fourth quarter of 2015, net disposal/deemed disposal gains arising from certain investee companies decreased. Partly offsetting this decrease, fair value gains on options we own in an investee company were recognised in the fourth quarter of 2015 and impairment provision charges for certain investee companies decreased.

Selling and marketing expenses. Selling and marketing expenses increased by 47% to RMB3,024 million for the fourth quarter of 2015 on a year-on-year basis. The increase mainly reflected greater marketing spending on products and platforms such as online games, online literature, mobile utilities and online media, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses were 10% for the fourth quarter of 2015, broadly stable compared to the fourth quarter of 2014.

General and administrative expenses. General and administrative expenses increased by 20% to RMB4,766 million for the fourth quarter of 2015 on a year-on-year basis. The increase was primarily driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 16% for the fourth quarter of 2015 from 19% for the fourth quarter of 2014.

Finance costs, net. Finance costs, net increased by 33% to RMB363 million for the fourth quarter of 2015 on a year-on-year basis. The increase mainly reflected higher interest expense driven by higher amount of indebtedness.

Share of losses of associates and joint ventures. Share of losses of associates and joint ventures increased to RMB1,329 million for the fourth quarter of 2015. The year-on-year increase was mainly attributable to share of losses arising from impairment provisions recognised by a listed associate engaging in the eCommerce business in the fourth quarter of 2015.

Income tax expense. Income tax expense increased by 124% to RMB1,998 million for the fourth quarter of 2015 on a year-on-year basis. The increase primarily reflected greater profit before income tax and higher applicable CIT rate for certain subsidiaries in China.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 22% to RMB7,164 million for the fourth quarter of 2015 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 28% to RMB8,953 million for the fourth quarter of 2015 on a year-on-year basis.

Fourth Quarter of 2015 Compared to Third Quarter of 2015

The following table sets forth the comparative figures for the fourth quarter of 2015 and the third quarter of 2015:

| | Unaudited | |
|---|---------------------------|---------------------|
| | Three months ended | |
| | 31 December | 30 September |
| | 2015 | 2015 |
| | (RMB in millions) | |
| Revenues | 30,441 | 26,594 |
| Cost of revenues | <u>(12,661)</u> | <u>(11,014)</u> |
| Gross profit | 17,780 | 15,580 |
| Interest income | 649 | 559 |
| Other gains, net | 249 | 614 |
| Selling and marketing expenses | (3,024) | (2,042) |
| General and administrative expenses | <u>(4,766)</u> | <u>(4,380)</u> |
| Operating profit | 10,888 | 10,331 |
| Finance costs, net | (363) | (481) |
| Share of losses of associates and joint ventures | <u>(1,329)</u> | <u>(702)</u> |
| Profit before income tax | 9,196 | 9,148 |
| Income tax expense | <u>(1,998)</u> | <u>(1,564)</u> |
| Profit for the period | <u>7,198</u> | <u>7,584</u> |
| Attributable to: | | |
| Equity holders of the Company | 7,164 | 7,445 |
| Non-controlling interests | <u>34</u> | <u>139</u> |
| | <u>7,198</u> | <u>7,584</u> |
| Non-GAAP profit attributable to equity holders of the Company | <u>8,953</u> | <u>8,280</u> |

Revenues. Revenues increased by 14% to RMB30,441 million for the fourth quarter of 2015 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 12% to RMB23,068 million for the fourth quarter of 2015 on a quarter-on-quarter basis. Online game revenues increased by 11% to RMB15,971 million. The increase was primarily driven by new smart phone games such as The Legend of MIR 2 and Honor of Kings launched in the third quarter of 2015, as well as Six Dragons Hegemony 3D launched in the fourth quarter of 2015. PC client games also registered revenue growth. Social networks revenues increased by 14% to RMB7,097 million. The increase was mainly driven by revenue growth from virtual item sales, as well as from subscription services due to enhanced digital content and mobile privileges.
- Revenues from our online advertising business increased by 16% to RMB5,733 million for the fourth quarter of 2015 on a quarter-on-quarter basis. Performance-based advertising revenues increased by 22% to RMB2,916 million quarter-on-quarter, primarily driven by higher revenues from social advertising on mobile devices. Brand display advertising revenues increased by 10% to RMB2,817 million quarter-on-quarter, as revenue growth from Tencent News more than offset a slight revenue decline from Tencent Video.

Cost of revenues. Cost of revenues increased by 15% to RMB12,661 million for the fourth quarter of 2015 on a quarter-on-quarter basis. The increase primarily reflected greater sharing and content costs, channel costs, and bank handling fees on C2C money transfers. As a percentage of revenues, cost of revenues increased to 42% for the fourth quarter of 2015 from 41% for the third quarter of 2015.

- Cost of revenues for our VAS business increased by 14% to RMB8,383 million for the fourth quarter of 2015 on a quarter-on-quarter basis. The increase primarily reflected greater sharing and content costs (especially for licensed smart phone games) and channel costs.
- Cost of revenues for our online advertising business increased by 11% to RMB2,794 million for the fourth quarter of 2015 on a quarter-on-quarter basis. The increase mainly reflected greater investments in video content and traffic acquisition costs.
- Cost of revenues for our other businesses increased by 32% to RMB1,484 million for the fourth quarter of 2015 on a quarter-on-quarter basis. The increase was primarily driven by greater bank handling fees on C2C money transfers.

Selling and marketing expenses. Selling and marketing expenses increased by 48% to RMB3,024 million for the fourth quarter of 2015 on a quarter-on-quarter basis. The increase primarily reflected seasonal marketing and promotion activities for our online games, mobile utilities, and online media products.

General and administrative expenses. General and administrative expenses increased by 9% to RMB4,766 million for the fourth quarter of 2015 on a quarter-on-quarter basis. Staff costs as well as research and development expenses increased.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 4% to RMB7,164 million for the fourth quarter of 2015 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 8% to RMB8,953 million for the fourth quarter of 2015 on a quarter-on-quarter basis.

Other Financial Information

| | Unaudited | | | | |
|----------------------------|-------------------------------------|---------------------|---------------------|----------------------|---------------------|
| | Year ended | | Three months ended | | |
| | 31 December 2015 | 31 December 2014 | 31 December 2015 | 30 September 2015 | 31 December 2014 |
| | (RMB in millions, unless specified) | | | | |
| EBITDA (a) | 43,049 | 30,908 | 12,040 | 10,806 | 7,929 |
| Adjusted EBITDA (a) | 45,805 | 32,710 | 12,831 | 11,569 | 8,424 |
| Adjusted EBITDA margin (b) | 45% | 41% | 42% | 44% | 40% |
| Interest expense | 1,510 | 866 | 409 | 373 | 264 |
| Net cash (c) | 19,114 | 22,758 | 19,114 | 21,239 | 22,758 |
| Capital expenditures (d) | 7,709 | 4,718 | 1,883 | 1,653 | 1,603 |

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 | | | | |
|---|-------------------------------------|--------------------|---------------------------|--------------------|--------------|
| | Year ended | | Three months ended | | |
| | 31 December | 31 December | 30 September | 31 December | |
| | 2015 | 2014 | 2015 | 2015 | 2014 |
| | (RMB in millions, unless specified) | | | | |
| Operating profit | 40,627 | 30,542 | 10,888 | 10,331 | 7,394 |
| Adjustments: | | | | | |
| Interest income | (2,327) | (1,676) | (649) | (559) | (443) |
| Other (gains)/losses, net | (1,886) | (2,759) | (249) | (614) | (343) |
| Depreciation of fixed assets and investment properties | 3,159 | 2,993 | 826 | 781 | 766 |
| Amortisation of intangible assets | <u>3,476</u> | <u>1,808</u> | <u>1,224</u> | <u>867</u> | <u>555</u> |
| EBITDA | 43,049 | 30,908 | 12,040 | 10,806 | 7,929 |
| Equity-settled share-based compensation | <u>2,756</u> | <u>1,802</u> | <u>791</u> | <u>763</u> | <u>495</u> |
| Adjusted EBITDA | <u>45,805</u> | <u>32,710</u> | <u>12,831</u> | <u>11,569</u> | <u>8,424</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 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. 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 Company's non-GAAP financial measures for the years ended 31 December 2015 and 2014, the fourth quarters of 2015 and 2014, and the third quarter of 2015 to the nearest measures prepared in accordance with IFRS:

Year ended 31 December 2015

| | Adjustments | | | | | | | Non-GAAP* |
|---------------------------------------|-------------|---|---|---------|-------|-------|-------------------------|-----------|
| | As reported | Equity-settled share-based compensation | Cash-settled share-based compensation | Net | | | Impairment provision | |
| | | | | (a) | (b) | (c) | | |
| | | | | | | | | |
| (RMB in millions, unless specified) | | | | | | | | |
| Operating profit | 40,627 | 2,756 | 85 | (4,275) | 198 | 2,373 | 41,764 | |
| Profit for the year | 29,108 | 3,304 | 85 | (4,016) | 1,186 | 3,185 | 32,852 | |
| Profit attributable to equity holders | 28,806 | 3,221 | 81 | (4,016) | 1,149 | 3,169 | 32,410 | |
| EPS (RMB per share) | | | | | | | | |
| - basic | 3.097 | | | | | | 3.485 | |
| - diluted | 3.055 | | | | | | 3.437 | |
| Operating margin | 39% | | | | | | 41% | |
| Net margin | 28% | | | | | | 32% | |

Year ended 31 December 2014

| | Adjustments | | | | | | | Non-GAAP* |
|---------------------------------------|-------------|---|---|---------|-----|-------|-------------------------|-----------|
| | As reported | Equity-settled share-based compensation | Cash-settled share-based compensation | Net | | | Impairment provision | |
| | | | | (a) | (b) | (c) | | |
| | | | | | | | | |
| (RMB in millions, unless specified) | | | | | | | | |
| Operating profit | 30,542 | 1,802 | 695 | (5,197) | 59 | 2,510 | 30,411 | |
| Profit for the year | 23,888 | 2,184 | 695 | (5,163) | 776 | 2,553 | 24,933 | |
| Profit attributable to equity holders | 23,810 | 2,152 | 637 | (5,179) | 768 | 2,549 | 24,737 | |
| EPS (RMB per share) | | | | | | | | |
| - basic | 2.579 | | | | | | 2.680 | |
| - diluted | 2.545 | | | | | | 2.644 | |
| Operating margin | 39% | | | | | | 39% | |
| Net margin | 30% | | | | | | 32% | |

Unaudited three months ended 31 December 2015

| | Adjustments | | | | | | | Non-GAAP |
|---------------------------------------|-------------------------------------|---|---------------------------------------|--|-----|-----------------------------------|----------------------|----------|
| | As reported | Equity-settled share-based compensation | Cash-settled share-based compensation | Net | | Amortisation of intangible assets | Impairment provision | |
| | | | | (gains)/losses from investee companies | | | | |
| | | | | (a) | (b) | | | |
| | | | | | (c) | (d) | | |
| | (RMB in millions, unless specified) | | | | | | | |
| Operating profit | 10,888 | 791 | 18 | (929) | 46 | 719 | 11,533 | |
| Profit for the period | 7,198 | 959 | 17 | (995) | 313 | 1,525 | 9,017 | |
| Profit attributable to equity holders | 7,164 | 939 | 16 | (995) | 304 | 1,525 | 8,953 | |
| EPS (RMB per share) | | | | | | | | |
| - basic | 0.769 | | | | | | 0.961 | |
| - diluted | 0.759 | | | | | | 0.949 | |
| Operating margin | 36% | | | | | | 38% | |
| Net margin | 24% | | | | | | 30% | |

Unaudited three months ended 30 September 2015

| | Adjustments | | | | | | | Non-GAAP |
|---------------------------------------|-------------------------------------|---|---------------------------------------|--|-----|-----------------------------------|----------------------|----------|
| | As reported | Equity-settled share-based compensation | Cash-settled share-based compensation | Net | | Amortisation of intangible assets | Impairment provision | |
| | | | | (gains)/losses from investee companies | | | | |
| | | | | (a) | (b) | | | |
| | | | | | (c) | (d) | | |
| | (RMB in millions, unless specified) | | | | | | | |
| Operating profit | 10,331 | 763 | 17 | (1,020) | 46 | 379 | 10,516 | |
| Profit for the period | 7,584 | 981 | 18 | (783) | 275 | 375 | 8,450 | |
| Profit attributable to equity holders | 7,445 | 959 | 17 | (783) | 267 | 375 | 8,280 | |
| EPS (RMB per share) | | | | | | | | |
| - basic | 0.800 | | | | | | 0.890 | |
| - diluted | 0.792 | | | | | | 0.881 | |
| Operating margin | 39% | | | | | | 40% | |
| Net margin | 29% | | | | | | 32% | |

Unaudited three months ended 31 December 2014

| | Adjustments | | | | | | Non-GAAP* |
|---------------------------------------|-------------------------------------|---|---|--|---|-------------------------|-----------|
| | As reported | Equity-settled share-based compensation | Cash-settled share-based compensation | Net | | Impairment provision | |
| | | | | (gains)/losses from investee companies | Amortisation of intangible assets | | |
| | (a) | (b) | (c) | (d) | | | |
| | (RMB in millions, unless specified) | | | | | | |
| Operating profit | 7,394 | 495 | 149 | (1,153) | 13 | 1,170 | 8,068 |
| Profit for the period | 5,954 | 637 | 149 | (1,154) | 300 | 1,213 | 7,099 |
| Profit attributable to equity holders | 5,860 | 630 | 136 | (1,157) | 299 | 1,213 | 6,981 |
| EPS (RMB per share) | | | | | | | |
| - basic | 0.632 | | | | | | 0.752 |
| - diluted | 0.625 | | | | | | 0.744 |
| Operating margin | 35% | | | | | | 38% |
| Net margin | 28% | | | | | | 34% |

* In 2015, we have included relevant non-GAAP adjustments for our material associates in our non-GAAP adjustments. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice. Comparative figures have been adjusted to conform to the new presentation.

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) 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 31 December 2015 and 30 September 2015 are as follows:

| | Audited 31 December 2015 | Unaudited 30 September 2015 |
|---------------------------|---|-----------------------------------|
| | (RMB in millions) | |
| Cash and cash equivalents | 43,438 | 46,714 |
| Term deposits | <u>41,005</u> | <u>28,650</u> |
| | 84,443 | 75,364 |
| Borrowings | (24,351) | (13,995) |
| Notes payable | <u>(40,978)</u> | <u>(40,130)</u> |
| Net cash | <u>19,114</u> | <u>21,239</u> |

As at 31 December 2015, the Group had net cash of RMB19,114 million, representing a 10% decline quarter-on-quarter mainly due to payments for investments in investee companies and licensed content, partially offset by free cash flow generated during the quarter. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB98 billion as at 31 December 2015.

As at 31 December 2015, RMB11,617 million of our financial resources (cash and cash equivalents and term deposits) were denominated in non-RMB currencies.

For the fourth quarter of 2015, the Group had free cash flow of RMB16,169 million. This was a result of net cash generated from operating activities of RMB18,191 million, offset by payments for capital expenditure of RMB2,022 million.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

| | | As at 31 December | |
|---|------|-----------------------|----------------|
| | | 2015 | 2014 |
| | Note | RMB'Million | RMB'Million |
| ASSETS | | | |
| Non-current assets | | | |
| Fixed assets | | 9,973 | 7,918 |
| Construction in progress | | 4,248 | 3,830 |
| Investment properties | | 292 | 268 |
| Land use rights | | 2,293 | 751 |
| Intangible assets | | 13,439 | 9,304 |
| Investments in associates | 3(a) | 60,171 | 51,131 |
| Investments in redeemable preference shares of associates | 3(b) | 6,230 | 2,941 |
| Investments in joint ventures | | 544 | 63 |
| Deferred income tax assets | | 757 | 322 |
| Available-for-sale financial assets | 4 | 44,339 | 13,277 |
| Prepayments, deposits and other assets | | 5,480 | 1,209 |
| Term deposits | | 3,674 | 4,831 |
| | | <u>151,440</u> | <u>95,845</u> |
| Current assets | | | |
| Inventories | | 222 | 244 |
| Accounts receivable | 5 | 7,061 | 4,588 |
| Prepayments, deposits and other assets | | 11,397 | 7,804 |
| Other financial assets | 6 | 1,198 | — |
| Term deposits | | 37,331 | 10,798 |
| Restricted cash | | 54,731 | 9,174 |
| Cash and cash equivalents | | 43,438 | 42,713 |
| | | <u>155,378</u> | <u>75,321</u> |
| Total assets | | <u>306,818</u> | <u>171,166</u> |

| | | As at 31 December | |
|---|-------------------------------------|--------------------------|--------------------|
| | | 2015 | 2014 |
| Note | | RMB'Million | RMB'Million |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| | Share capital | — | — |
| | Share premium | 12,167 | 5,131 |
| | Shares held for share award schemes | (1,817) | (1,309) |
| | Other reserves | 9,673 | 2,129 |
| | Retained earnings | <u>100,012</u> | <u>74,062</u> |
| | | 120,035 | 80,013 |
| | Non-controlling interests | <u>2,065</u> | <u>2,111</u> |
| | Total equity | <u>122,100</u> | <u>82,124</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| | Borrowings | 8 12,922 | 5,507 |
| | Notes payable | 9 37,092 | 25,028 |
| | Long-term payables | 3,626 | 2,052 |
| | Deferred income tax liabilities | 3,668 | 2,942 |
| | Deferred revenue | <u>3,004</u> | <u>3,478</u> |
| | | 60,312 | 39,007 |
| Current liabilities | | | |
| | Accounts payable | 10 15,700 | 8,683 |
| | Other payables and accruals | 70,199 | 19,123 |
| | Borrowings | 8 11,429 | 3,215 |
| | Notes payable | 9 3,886 | 1,834 |
| | Current income tax liabilities | 1,608 | 461 |
| | Other tax liabilities | 462 | 566 |
| | Deferred revenue | <u>21,122</u> | <u>16,153</u> |
| | | 124,406 | 50,035 |
| | Total liabilities | <u>184,718</u> | <u>89,042</u> |
| | Total equity and liabilities | <u>306,818</u> | <u>171,166</u> |

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015**

| | | Year ended 31 December | |
|---|------|-------------------------------|-----------------|
| | | 2015 | 2014 |
| | Note | RMB'Million | RMB'Million |
| Revenues | | | |
| Value-added services | | 80,669 | 63,310 |
| Online advertising | | 17,468 | 8,308 |
| Others | | <u>4,726</u> | <u>7,314</u> |
| | | 102,863 | 78,932 |
| Cost of revenues | 12 | <u>(41,631)</u> | <u>(30,873)</u> |
| Gross profit | | 61,232 | 48,059 |
| Interest income | | 2,327 | 1,676 |
| Other gains, net | 11 | 1,886 | 2,759 |
| Selling and marketing expenses | 12 | (7,993) | (7,797) |
| General and administrative expenses | 12 | <u>(16,825)</u> | <u>(14,155)</u> |
| Operating profit | | 40,627 | 30,542 |
| Finance costs, net | | (1,618) | (1,182) |
| Share of losses of associates and joint ventures | | <u>(2,793)</u> | <u>(347)</u> |
| Profit before income tax | | 36,216 | 29,013 |
| Income tax expense | 13 | <u>(7,108)</u> | <u>(5,125)</u> |
| Profit for the year | | <u>29,108</u> | <u>23,888</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 28,806 | 23,810 |
| Non-controlling interests | | <u>302</u> | <u>78</u> |
| | | <u>29,108</u> | <u>23,888</u> |
| Earnings per share for profit attributable to equity holders of the Company (in RMB per share) | | | |
| - basic | 14 | <u>3.097</u> | <u>2.579</u> |
| - diluted | 14 | <u>3.055</u> | <u>2.545</u> |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Year ended 31 December | |
|--|-------------------------------|----------------------|
| | 2015 | 2014 |
| | RMB' Million | RMB' Million |
| Profit for the year | <u>29,108</u> | <u>23,888</u> |
| Other comprehensive income, net of tax: | | |
| Items that may be subsequently reclassified to profit or loss | | |
| Share of other comprehensive income of associates | 329 | 81 |
| Net gains/(losses) from changes in fair value of available-for-sale financial assets | 12,575 | (1,705) |
| Currency translation differences | 1,975 | (289) |
| Items that may not be subsequently reclassified to profit or loss | | |
| Other fair value gain recognised | <u>736</u> | <u>—</u> |
| | <u>15,615</u> | <u>(1,913)</u> |
| Total comprehensive income for the year | <u><u>44,723</u></u> | <u><u>21,975</u></u> |
| Attributable to: | | |
| Equity holders of the Company | 44,416 | 21,891 |
| Non-controlling interests | <u>307</u> | <u>84</u> |
| | <u><u>44,723</u></u> | <u><u>21,975</u></u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|------------------|--------------------------|-------------------|-------------------|----------------------|-------------|------------------------------|-----------------|
| | Share capital | Share premium | Shares held for share | | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| | | | award schemes | Other reserves | | | | | |
| RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | |
| Balance at 1 January 2015 | — | 5,131 | (1,309) | 2,129 | 74,062 | 80,013 | 2,111 | 82,124 | |
| Comprehensive income | | | | | | | | | |
| Profit for the year | — | — | — | — | 28,806 | 28,806 | 302 | 29,108 | |
| Other comprehensive income: | | | | | | | | | |
| - share of other comprehensive income of associates | — | — | — | 329 | — | 329 | — | 329 | |
| - net gains from changes in fair value of available-for-sale financial assets | — | — | — | 12,575 | — | 12,575 | — | 12,575 | |
| - currency translation differences | — | — | — | 1,970 | — | 1,970 | 5 | 1,975 | |
| - other fair value gain recognised | — | — | — | 736 | — | 736 | — | 736 | |
| Total comprehensive income for the year | — | — | — | 15,610 | 28,806 | 44,416 | 307 | 44,723 | |
| Transactions with owners | | | | | | | | | |
| Capital injection | — | — | — | — | — | — | 108 | 108 | |
| Employee share option schemes: | | | | | | | | | |
| - value of employee services | — | 165 | — | 190 | — | 355 | 21 | 376 | |
| - proceeds from shares issued | — | 169 | — | — | — | 169 | — | 169 | |
| Employee share award schemes: | | | | | | | | | |
| - value of employee services | — | 2,058 | — | 273 | — | 2,331 | 60 | 2,391 | |
| - shares purchased for share award schemes | — | — | (652) | — | — | (652) | — | (652) | |
| - vesting of awarded shares | — | (144) | 144 | — | — | — | — | — | |
| Tax benefit from share-based payments of a subsidiary | — | — | — | 982 | — | 982 | — | 982 | |
| Profit appropriations to statutory reserves | — | — | — | 216 | (216) | — | — | — | |
| Dividends (Note 15) | — | — | — | — | (2,640) | (2,640) | (549) | (3,189) | |
| Total contributions by and distributions to owners recognised directly in equity for the year | — | 2,248 | (508) | 1,661 | (2,856) | 545 | (360) | 185 | |
| Non-controlling interests arising from business combinations | — | — | — | — | — | — | 278 | 278 | |
| Disposal of equity interests in non-wholly owned subsidiaries | — | — | — | — | — | — | (44) | (44) | |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | — | 4,788 | — | (8,160) | — | (3,372) | (599) | (3,971) | |
| Transfer of equity interests of subsidiaries to non-controlling interests | — | — | — | (372) | — | (372) | 372 | — | |
| 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 year | — | 7,036 | (508) | (8,066) | (2,856) | (4,394) | (353) | (4,747) | |
| Balance at 31 December 2015 | — | 12,167 | (1,817) | 9,673 | 100,012 | 120,035 | 2,065 | 122,100 | |

| | Attributable to equity holders of the Company | | | | | | | |
|--|---|---------------|-----------------------|----------------|-------------------|-------------|---------------------------|--------------|
| | Share capital | Share premium | Shares held for share | | Retained earnings | Total | Non-controlling interests | Total equity |
| | | | award schemes | Other reserves | | | | |
| 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 year | — | — | — | — | 23,810 | 23,810 | 78 | 23,888 |
| Other comprehensive income: | | | | | | | | |
| - share of other comprehensive income of associates | — | — | — | 81 | — | 81 | — | 81 |
| - net losses from changes in fair value of available-for-sale financial assets | — | — | — | (1,705) | — | (1,705) | — | (1,705) |
| - currency translation differences | — | — | — | (295) | — | (295) | 6 | (289) |
| Total comprehensive income for the year | — | — | — | (1,919) | 23,810 | 21,891 | 84 | 21,975 |
| Transactions with owners | | | | | | | | |
| Capital injection | — | — | — | — | — | — | 44 | 44 |
| Employee share option schemes: | | | | | | | | |
| - value of employee services | — | 160 | — | 125 | — | 285 | 25 | 310 |
| - proceeds from shares issued | — | 299 | — | — | — | 299 | — | 299 |
| Employee share award schemes: | | | | | | | | |
| - value of employee services | — | 1,350 | — | 135 | — | 1,485 | 7 | 1,492 |
| - shares purchased for share award schemes | — | — | (529) | — | — | (529) | — | (529) |
| - vesting of awarded shares | — | (91) | 91 | — | — | — | — | — |
| Profit appropriations to statutory reserves | — | — | — | 211 | (211) | — | — | — |
| Repurchase and cancellation of shares | — | (61) | — | — | — | (61) | — | (61) |
| Dividends | — | — | — | — | (1,761) | (1,761) | (158) | (1,919) |
| Total contributions by and distributions to owners recognised directly in equity for the year | — | 1,657 | (438) | 471 | (1,972) | (282) | (82) | (364) |
| Non-controlling interests arising from business combinations | — | — | — | — | — | — | 1,705 | 1,705 |
| Equity interests in non-wholly owned subsidiaries diluted in relation to business combinations | — | — | — | 468 | — | 468 | — | 468 |
| Disposal of equity interests in non-wholly owned subsidiaries | — | — | — | 230 | — | 230 | 4 | 234 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | — | 628 | — | (1,224) | — | (596) | (118) | (714) |
| Put option granted to owners of the non-controlling interests lapsed | — | — | — | 357 | — | 357 | — | 357 |
| Total transactions with owners recognised directly in equity for the year | — | 2,285 | (438) | 302 | (1,972) | 177 | 1,509 | 1,686 |
| Balance at 31 December 2014 | — | 5,131 | (1,309) | 2,129 | 74,062 | 80,013 | 2,111 | 82,124 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Year ended 31 December | |
|---|-----------------------------------|---------------|
| | 2015 | 2014 |
| | RMB'Million | RMB'Million |
| Net cash flows generated from operating activities | 45,431 | 32,711 |
| Net cash flows used in investing activities | (63,605) | (28,388) |
| Net cash flows generated from financing activities | <u>18,528</u> | <u>18,350</u> |
| Net increase in cash and cash equivalents | 354 | 22,673 |
| Cash and cash equivalents at beginning of the year | 42,713 | 20,228 |
| Exchange gains/(losses) on cash and cash equivalents | <u>371</u> | <u>(188)</u> |
| Cash and cash equivalents at end of the year | <u>43,438</u> | <u>42,713</u> |
| Analysis of balances of cash and cash equivalents: | | |
| Bank balances and cash | 19,845 | 15,235 |
| Term deposits and highly liquid investments with initial terms within three months | <u>23,593</u> | <u>27,478</u> |
| | <u>43,438</u> | <u>42,713</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.

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRS and have been consistently applied to all the year/period presented, unless otherwise stated. The consolidated financial statements have been prepared 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.

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2015. The adoption of these amendments to standards does not have any significant impact on the consolidated financial statements of the Group.

| | |
|---------------------------|--|
| IAS 19 (2011) (amendment) | Defined benefit plans: employee contributions |
| IFRSs (amendment) | Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle |

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

A number of new standards and amendments to standards are not effective for the financial year beginning 1 January 2015, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

| | |
|---------|---------------------------------------|
| IFRS 9 | Financial instruments |
| IFRS 15 | Revenue from contracts with customers |
| IFRS 16 | Lease |

The Group is in the process of assessing the impact of the above new standards on the Group’s results and financial position.

2 Segment information

In light of the reduction in size of the Group's eCommerce business, the segment information previously presented under the "eCommerce transactions" segment has been reclassified to the "Others" segment from 1 January 2015 onwards, both in the internal management reports adopted by the chief operating decision-makers, and in the consolidated financial statements of the Group. The comparative figures have also been reclassified to conform to the new presentation. The above changes in segment information were taken to better reflect the current operations of the Group, as well as the resource allocation and future business developments of the Group.

The Group has following reportable segments for the years ended 31 December 2015 and 2014:

- VAS;
- Online advertising; and
- Others

"Others" segment of the Group comprise trademark licensing, software development services, software sales and other services.

There were no material inter-segment sales during the years ended 31 December 2015 and 2014. 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 years ended 31 December 2015 and 2014 is as follows:

| | Year ended 31 December 2015 | | | |
|---|-----------------------------|----------------------------|----------------|----------------|
| | VAS | Online | Others | Total |
| | RMB'Million | advertising RMB'Million | RMB'Million | RMB'Million |
| Segment revenues | <u>80,669</u> | <u>17,468</u> | <u>4,726</u> | <u>102,863</u> |
| Gross profit | <u>52,247</u> | <u>8,527</u> | <u>458</u> | <u>61,232</u> |
| Depreciation | 1,983 | 171 | 37 | 2,191 |
| Amortisation | 631 | 2,437 | – | 3,068 |
| Share of (losses)/profits of associates and joint ventures | <u>(538)</u> | <u>164</u> | <u>(2,419)</u> | <u>(2,793)</u> |

| | Year ended 31 December 2014 | | | Total RMB'Million |
|---|-----------------------------|--------------------------------------|-----------------------|----------------------|
| | VAS RMB'Million | Online advertising RMB'Million | Others RMB'Million | |
| Segment revenues | <u>63,310</u> | <u>8,308</u> | <u>7,314</u> | <u>78,932</u> |
| Gross profit | <u>42,691</u> | <u>3,648</u> | <u>1,720</u> | <u>48,059</u> |
| Depreciation | 1,919 | 158 | 38 | 2,115 |
| Amortisation | 232 | 1,374 | – | 1,606 |
| Share of losses of associates and joint ventures | <u>(26)</u> | <u>(166)</u> | <u>(155)</u> | <u>(347)</u> |

3 Interests in associates

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2015 RMB'Million | 2014 RMB'Million |
| Investments in associates (a) | | |
| - Listed shares | 36,040 | 32,064 |
| - Unlisted shares | 24,131 | 19,067 |
| | 60,171 | 51,131 |
| Investments in redeemable preference shares of associates (b) | 6,230 | 2,941 |
| | 66,401 | 54,072 |

Note:

(a) Investments in associates

| | 2015 RMB'Million | 2014 RMB'Million |
|---|---------------------|---------------------|
| At beginning of the year | 51,131 | 10,867 |
| Additions | 12,908 | 40,628 |
| Deemed disposal gains (Note 11(b)) | 1,931 | 2,402 |
| Share of losses of associates | (2,802) | (346) |
| Share of other comprehensive income of associates | 329 | 81 |
| Dividends from associates | (237) | (148) |
| Disposals and transfers (i) | (4,386) | (278) |
| Impairment provision (ii) | (1,591) | (1,638) |
| Currency translation differences | 2,888 | (437) |
| At end of the year | 60,171 | 51,131 |

The associates of the Group have been accounted by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

- (i) During the year ended 31 December 2015, the Group re-designated several investments from associates, including Dianping of RMB3,130 million (Note 4(b)), to available-for-sale financial assets as a result of change in the nature of these investments.
- (ii) During the year ended 31 December 2015, the Group made an aggregate impairment provision of RMB1,591 million (2014: RMB1,638 million) against the carrying amounts of its investments in certain associates, of which RMB1,128 million was provided for an associate, based on the results of impairment assessment performed on the carrying amounts of these investments with reference to their recoverable amounts.

(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 games 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 year ended 31 December 2015, the Group made an impairment provision of approximately RMB47 million (2014: RMB321 million) for the investments in redeemable preference shares of certain associates based on the impairment assessment made with reference to the business performance and recoverable amount of these investments.

4 Available-for-sale financial assets

| | As at 31 December | |
|---------------------------------|--------------------------|---------------|
| | 2015 | 2014 |
| | RMB'Million | RMB'Million |
| Listed equity interests (a) | 9,435 | 3,631 |
| Unlisted equity investments (b) | 34,879 | 9,646 |
| Other unlisted investments (b) | <u>25</u> | <u>—</u> |
| | <u>44,339</u> | <u>13,277</u> |

Note:

- (a) Fair value gains recognised for the listed equity interests for the year ended 31 December 2015 of RMB3,357 million (2014: fair value losses of RMB2,866 million) were recognised in the other comprehensive income.

(b) Movement in the unlisted interests is analysed as follows:

| | 2015 | 2014 |
|----------------------------------|----------------------|--------------|
| | RMB'Million | RMB'Million |
| At beginning of the year | 9,646 | 6,270 |
| Additions (Note) | 14,298 | 2,682 |
| Changes in fair value | 9,688 | 1,146 |
| Impairment provision | (65) | (369) |
| Currency translation differences | <u>1,337</u> | <u>(83)</u> |
| At end of the year | <u>34,904</u> | <u>9,646</u> |

Note: During the year ended 31 December 2015, the Group acquired certain unlisted interests or made additional investments in existing unlisted interests. In October 2015, the Group's equity interests in Dianping was exchanged to that of Internet Plus Holdings. As a result of the exchange, the Group recognised the investment in Internet Plus Holdings as available-for-sale financial assets. In December 2015, the Group further subscribed for the newly issued shares of Internet Plus Holdings at a total consideration of USD1,000 million (equivalent to approximately RMB6,396 million).

(c) During the year ended 31 December 2015, the Group made an impairment provision of RMB586 million (2014: RMB478 million) against the carrying amounts of certain available-for-sale financial assets, with reference to their respective market values, business performance and assessed recoverable amounts.

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

| | As at 31 December | |
|--------------|--------------------------|--------------|
| | 2015 | 2014 |
| | RMB'Million | RMB'Million |
| 0 - 30 days | 3,616 | 2,032 |
| 31 - 60 days | 2,209 | 1,464 |
| 61 - 90 days | 798 | 667 |
| Over 90 days | <u>438</u> | <u>425</u> |
| | <u>7,061</u> | <u>4,588</u> |

Receivable balances as at 31 December 2015 and 31 December 2014 mainly represented amounts due from online advertising customers, telecommunications operators and third party platform providers.

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 platform providers usually settle the amounts due by them within a period of 30 to 120 days and 60 days, respectively.

6 Other financial assets

As at 31 December 2015, other financial assets mainly represents call option rights held by the Group which entitle it to acquire additional equity interests in certain investee companies of the Group. They were presented at fair values.

7 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.

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the exercise prices and the number of outstanding share options, so as to give the participants the same proportion of the equity capital as that to which they were previously entitled.

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 2015 (2) | – | – | HKD57.36 | 36,432,000 | HKD31.70 | 5,000,000 | 41,432,000 |
| Granted (2) | – | – | HKD149.22 | 1,470,875 | – | – | 1,470,875 |
| Exercised (2) | – | – | HKD18.28 | (11,488,432) | – | – | (11,488,432) |
| Lapsed (2) | – | – | HKD39.44 | (717,138) | – | – | (717,138) |
| At 31 December 2015 (2) | – | – | HKD80.59 | 25,697,305 | HKD31.70 | 5,000,000 | 30,697,305 |
| Exercisable as at 31 December 2015 (2) | – | – | HKD56.85 | 8,844,117 | HKD31.70 | 1,250,000 | 10,094,117 |
| At 1 January 2014 (1) | HKD11.25 | 819,266 | HKD75.69 | 12,648,005 | HKD158.50 | 1,000,000 | 14,467,271 |
| Granted before the Share Subdivision (1) | – | – | HKD572.60 | 2,307,500 | – | – | 2,307,500 |
| Granted after the Share Subdivision (2) | – | – | HKD123.67 | 2,213,700 | – | – | 2,213,700 |
| Exercised before the Share Subdivision (1) | HKD11.25 | (819,224) | HKD46.54 | (2,896,392) | – | – | (3,715,616) |
| Exercised after the Share Subdivision (2) | – | – | HKD10.18 | (22,790,915) | – | – | (22,790,915) |
| Lapsed before the Share Subdivision (1) | HKD14.53 | (42) | HKD116.38 | (600,000) | – | – | (600,042) |
| Lapsed after the Share Subdivision (2) | – | – | HKD90.82 | (286,350) | – | – | (286,350) |
| Effect of Share Subdivision (3) | – | – | – | 45,836,452 | – | 4,000,000 | 49,836,452 |
| At 31 December 2014 (2) | – | – | HKD57.36 | 36,432,000 | HKD31.70 | 5,000,000 | 41,432,000 |
| Exercisable as at 31 December 2014 (2) | – | – | HKD18.07 | 12,527,595 | – | – | 12,527,595 |

Note:

- (1) The numbers of shares and average exercise price were presented as before the effect of the Share Subdivision.
- (2) The numbers of shares and average exercise price were presented as after the effect of the Share Subdivision.
- (3) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

During the year ended 31 December 2015, no share options were granted to any director of the Company (2014: 1,000,000 share options (before the effect of the Share Subdivision) were granted to an executive director of the Company).

(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 31 December 2015. The vesting period of the awarded shares is determined by the Board.

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the number of outstanding awarded shares, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision.

Movements in the number of awarded shares for the years ended 31 December 2015 and 2014 are as follows:

| | Number of awarded shares |
|---|-------------------------------------|
| At 1 January 2015 (ii) | 82,035,522 |
| Granted (ii) | 74,308,983 |
| Lapsed (ii) | (6,746,336) |
| Vested and transferred (ii) | <u>(57,811,262)</u> |
| At 31 December 2015 (ii) | <u>91,786,907</u> |
| Vested but not transferred as at 31 December 2015 (ii) | <u>8,574,117</u> |
| At 1 January 2014 (i) | 18,065,996 |
| Granted before the Share Subdivision (i) | 1,183,445 |
| Granted after the Share Subdivision (ii) | 26,602,842 |
| Lapsed before the Share Subdivision (i) | (461,220) |
| Lapsed after the Share Subdivision (ii) | (4,730,292) |
| Vested and transferred before the Share Subdivision (i) | (226,797) |
| Vested and transferred after the Share Subdivision (ii) | (32,644,148) |
| Effect of Share Subdivision (iii) | <u>74,245,696</u> |
| At 31 December 2014 (ii) | <u>82,035,522</u> |
| Vested but not transferred as at 31 December 2014 (ii) | <u>28,160</u> |

Note:

- (i) The numbers of shares were presented as before the effect of the Share Subdivision.
- (ii) The numbers of shares were presented as after the effect of the Share Subdivision.

(iii) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

During the year ended 31 December 2015, 75,000 awarded shares (after the effect of the Share Subdivision) were granted to three independent non-executive directors of the Company (2014: 25,000 awarded shares (before the effect of the Share Subdivision) were granted to three independent non-executive directors of the Company).

8 Borrowings

| | As at 31 December | |
|---|--------------------------|---------------------|
| | 2015 | 2014 |
| | RMB'Million | RMB'Million |
| Included in non-current liabilities: | | |
| Non-current portion of long-term USD bank borrowings, unsecured (a) | <u>12,922</u> | <u>5,507</u> |
| Included in current liabilities: | | |
| RMB bank borrowings, unsecured | — | 125 |
| USD bank borrowings, unsecured (b) | 10,715 | 1,836 |
| Current portion of long-term USD bank borrowings, unsecured (a) | <u>714</u> | <u>1,254</u> |
| | <u>11,429</u> | <u>3,215</u> |
| | <u>24,351</u> | <u>8,722</u> |

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD2,100 million (2014: USD1,105 million). Applicable interest rates are at LIBOR plus 1.02% to 1.52% (2014: LIBOR plus 1.35% to 1.75%) per annum.
- (b) The aggregate principal amount of short-term USD bank borrowings was USD1,650 million (2014: USD300 million). Applicable interest rates are at LIBOR plus 0.75% to 0.85% or an interest rate of 1.125% (2014: LIBOR plus 0.85% to 1.00%) per annum.

9 Notes payable

| | As at 31 December | |
|--|-------------------|---------------|
| | 2015 | 2014 |
| | RMB'Million | RMB'Million |
| Included in non-current liabilities: | | |
| Non-current portion of long-term USD notes payable | 33,583 | 22,511 |
| Non-current portion of long-term HKD notes payable | <u>3,509</u> | <u>2,517</u> |
| | <u>37,092</u> | <u>25,028</u> |
| Included in current liabilities: | | |
| Current portion of long-term USD notes payable | <u>3,886</u> | <u>1,834</u> |
| | <u>40,978</u> | <u>26,862</u> |

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD5,800 million (31 December 2014: USD4,000 million) and HKD4,200 million (31 December 2014: HKD3,200 million), respectively. The interest rate range of the notes payable is from 2.000% to 4.700% (31 December 2014: 1.860% to 4.625%) per annum.

In April 2015, the Company updated the Global Medium Term Note Programme and increased the limit on the aggregate principal amount from USD5 billion to USD10 billion.

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

10 Accounts payable

Accounts payable and their ageing analysis are as follows:

| | As at 31 December | |
|--------------|-------------------|--------------|
| | 2015 | 2014 |
| | RMB'Million | RMB' Million |
| 0 - 30 days | 10,019 | 5,775 |
| 31 - 60 days | 1,774 | 936 |
| 61 - 90 days | 1,518 | 618 |
| Over 90 days | <u>2,389</u> | <u>1,354</u> |
| | <u>15,700</u> | <u>8,683</u> |

11 Other gains, net

| | 2015 | 2014 |
|--|---------------------|---------------------|
| | RMB'Million | RMB'Million |
| Impairment provision for investee companies and intangible assets from acquisition (a) | (2,373) | (2,510) |
| Gains on disposals/deemed disposals of investees and businesses (b) | 3,813 | 5,111 |
| Fair value gains on other financial instruments | 462 | 86 |
| Subsidies and tax rebates | 331 | 392 |
| Dividend income | 272 | 144 |
| Donation to Tencent Charity Funds | (470) | (300) |
| Others | <u>(149)</u> | <u>(164)</u> |
| | <u><u>1,886</u></u> | <u><u>2,759</u></u> |

Note:

- (a) The impairment provision for investee companies and intangible assets from acquisition recognised in “Other gains, net” mainly comprised impairment provision for investments in associates and redeemable preference shares of associates of RMB1,638 million (2014: RMB1,959 million), impairment provision for available-for-sale financial assets of RMB586 million (2014: RMB478 million) and impairment provision for intangible assets arising from acquisition of RMB148 million (2014: RMB73 million).
- (b) The disposal gains/deemed disposal gains recognised in “Other gains, net” mainly comprised the following:
- (i) During the year ended 31 December 2015, the Group recognised total net gains of deemed disposals of a number of investments in associates of RMB1,931 million (Note 3(a)) mainly due to new equity interests issued by these associates for additional financing or investment considerations. As a result, the Group’s equity interests in these associates were diluted, and dilution gains had been recognised accordingly. These associates are principally engaged in online insurance, online classified listing platform services, online gaming and other internet-related business.
 - (ii) As described in Notes 3(a) and 4(b), the Group recognised gains from investment in Dianping of RMB868 million during the year ended 31 December 2015.
 - (iii) During the year ended 31 December 2015, the Group also recognised total net gains of RMB1,014 million from a number of investees as a result of disposal, re-designation of investments, etc.

12 Expenses by nature

| | 2015 | 2014 |
|---|-------------|-------------|
| | RMB'Million | RMB'Million |
| Employee benefits expenses (a) | 18,475 | 15,451 |
| Content costs and agency fees (excluding amortisation of intangible assets) | 17,094 | 10,963 |
| Cost of merchandises sold | 193 | 4,334 |
| Bandwidth and server custody fees | 5,492 | 4,255 |
| Channel costs | 4,691 | 2,031 |
| Promotion and advertising expenses | 5,814 | 5,833 |
| Depreciation of fixed assets (a) | 3,153 | 2,989 |
| Amortisation of intangible assets (b) | 3,476 | 1,808 |
| Operating lease rentals in respect of office buildings | 896 | 997 |
| Travelling and entertainment expenses | 594 | 480 |
| Auditor's remuneration | | |
| - Audit services | 35 | 23 |
| - Audit-related services | 2 | 15 |
| - Non-audit services | 13 | 15 |

Note:

- (a) Research and development expenses for the year ended 31 December 2015 were RMB9,039 million (2014: RMB7,581 million), which included employee benefits expenses of RMB7,134 million (2014: RMB6,022 million) and depreciation of fixed assets of RMB718 million (2014: RMB639 million). No development expenses had been capitalised for the year ended 31 December 2015 (2014: Nil).
- (b) Included the amortisation charge for intangible assets in respect of licenses and licensed online contents.

13 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 years ended 31 December 2015 and 2014.

(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 years ended 31 December 2015 and 2014.

(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 years ended 31 December 2015 and 2014, 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 promulgated by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate is 25% for domestic and foreign enterprises in 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 years ended 31 December 2015 and 2014 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) United States corporate income tax

United States CIT provision was provided for the years ended 31 December 2015 and 2014 for the entities within the Group which were incorporated in the United States with estimated assessable profits, at applicable tax rate of 36%.

(e) Corporate income tax in other countries

CIT provision has been provided for the years ended 31 December 2015 and 2014 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 years ended 31 December 2015 and 2014 are analysed as follows:

| | 2015 | 2014 |
|---------------------|---------------------|--------------|
| | RMB'Million | RMB'Million |
| Current tax | 6,936 | 3,169 |
| Deferred income tax | <u>172</u> | <u>1,956</u> |
| | <u>7,108</u> | <u>5,125</u> |

14 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 year.

| | 2015 | 2014 |
|---|----------------------|---------------|
| Profit attributable to equity holders of the Company (RMB'Million) | <u>28,806</u> | <u>23,810</u> |
| Weighted average number of ordinary shares in issue (million shares) | <u>9,300</u> | <u>9,231</u> |
| Basic EPS (RMB per share) | <u>3.097</u> | <u>2.579</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 year ended 31 December 2015, these share options and restricted shares, and the convertible bonds had either anti-dilutive effect or insignificant dilutive effect to the Group.

| | 2015 | 2014 |
|---|----------------------|---------------|
| Profit attributable to equity holders of the Company (RMB' Million) | <u>28,806</u> | <u>23,810</u> |
| Weighted average number of ordinary shares in issue (million shares) | 9,300 | 9,231 |
| Adjustments for share options and awarded shares (million shares) | 130 | 126 |
| Weighted average number of ordinary shares for the calculation of diluted EPS (million shares) | <u>9,430</u> | <u>9,357</u> |
| Diluted EPS (RMB per share) | <u>3.055</u> | <u>2.545</u> |

15 Dividends

The dividends amounted to RMB2,640 million (2014: RMB1,761 million) was paid during the year ended 31 December 2015.

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 subject to the approval of the shareholders at the 2016 AGM. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

16 Business combinations

During the year ended 31 December 2015, the Group acquired and obtained control of certain entities engaging in online game, films production and literature related business. The aggregate consideration for these acquisitions was RMB1,109 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were RMB514 million, RMB262 million and RMB857 million, respectively.

The acquisition related costs of the business combinations were not significant and had been charged to general and administrative expenses in the consolidated income statement for the year ended 31 December 2015.

The revenue and the results contributed by these acquisitions of the Group for the period since the date of acquisitions were insignificant to the Group. The Group's revenue and results for the period would not be materially different if these acquisitions had occurred on 1 January 2015.

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 year ended 31 December 2015.

Closure of Register of Members

(a) Entitlement to Attend and Vote at the 2016 AGM

The register of members will be closed from Monday, 16 May 2016 to Wednesday, 18 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2016 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 13 May 2016.

(b) Entitlement to the Proposed Final Dividend

The register of members will be closed from Tuesday, 24 May 2016 to Wednesday, 25 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 23 May 2016.

Employee and Remuneration Policies

As at 31 December 2015, the Group had 30,641 employees (2014: 27,690). 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 year ended 31 December 2015 was RMB18,475 million (2014: RMB15,451 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 audited consolidated financial statements for the year ended 31 December 2015.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2015 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Compliance with the Corporate Governance Code

Save as disclosed in the corporate governance report in the 2014 annual report, and the 2015 interim 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, for any part of the year ended 31 December 2015, complied with the CG Code.

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.

Publication of the Annual Results, Annual Report and Corporate Governance Report

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.tencent.com) in due course.

APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to our hard-working employees and management team to carry out the Group's strategy with outstanding professionalism, integrity and dedication. I would also like to thank all our shareholders and stakeholders for their continued trust and confidence. We will strive to continue to enhance people's quality of life through products and services provided by us and our partners.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 17 March 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 and Ian Charles Stone.

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 to be 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 |
| “C2C” | customer-to-customer (or person-to-person) |
| “CG Code” | the corporate governance code provisions set out in Appendix 14 to the Listing Rules |
| “CIT” | corporate income tax |
| “Company” | Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange |
| “Dianping” | Dianping Holdings Ltd., a limited liability company incorporated under the laws of Cayman Islands |
| “EBITDA” | earnings before interest, tax, depreciation and amortisation |
| “EPS” | earnings per share |
| “GAAP” | Generally Accepted Accounting Principles |
| “Group” | the Company and its subsidiaries |
| “HBO” | Home Box Office, Inc. |
| “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 |

| | |
|------------------------------|--|
| “Internet Plus Holdings” | Internet Plus Holdings Ltd., a limited liability company incorporated under the laws of Cayman Islands |
| “IP” | intellectual property |
| “IPO” | initial public offering |
| “LIBOR” | London InterBank Offered Rate |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “M&A” | mergers and acquisitions |
| “MAU” | monthly active user accounts |
| “NBA” | the National Basketball Association |
| “O2O” | online-to-offline, or offline-to-online |
| “Paramount” | Paramount Pictures, Inc. |
| “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 |
| “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 share award scheme adopted by the Company on 13 November 2013, as amended |

| | |
|-------------------------|--|
| “Share Subdivision” | with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and granting by the Stock Exchange of the listing of, and permission to deal in, the subdivided shares |
| “Sony Music” | Sony Music Entertainment |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Tencent Charity Funds” | charity funds established by the Group |
| “United States” | the United States of America |
| “USD” | the lawful currency of the United States |
| “VAS” | value-added services |
| “Warner Music” | Warner Music Group Corp., a limited liability company incorporated under the laws of the State of Delaware, United States |