TENCENT HOLDINGS LIMITED
騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 700)

UPDATE OF GLOBAL MEDIUM TERM NOTE PROGRAMME

INCREASE OF GLOBAL MEDIUM TERM NOTE PROGRAMME LIMIT FROM US$5,000,000,000 TO US$10,000,000,000

AND

EXTRACT OF FINANCIAL INFORMATION

Reference is made to the announcement of the Company dated 10 April 2014 in relation to its establishment of the Programme.

The Board is pleased to announce that on 24 April 2015 the Company has updated the Programme and increased the limit on the aggregate principal amount of Notes which may be outstanding at any one time under the Programme from US$5,000,000,000 to US$10,000,000,000 (or its equivalent in other currencies). The Notes will be issued in series with different issue dates and terms and may be denominated in any currency subject to compliance with all relevant laws, regulations and directives. There will be no public offering of the Notes issued under the Programme in Hong Kong, the United States or any other jurisdictions, or to be placed to any Connected Person(s) of the Company.

In connection with the Programme, the Company will provide certain professional investors with recent corporate and financial information. For transparency and the timely dissemination of information to Shareholders and the broader investment community, an extract of the relevant information which relates to the management's discussion and analysis of financial condition and results of the operations of the Group is attached hereto.

The Company has appointed Deutsche Bank as the arranger under the Programme.

As the Company may or may not proceed with drawdown(s) under the Programme, the timing of drawdown(s) (if any) is uncertain as it depends on market conditions and the corporate needs of the Company and, the terms of each drawdown may vary within the parameters set out in the Programme, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Company.

INCREASE OF GLOBAL MEDIUM TERM NOTE PROGRAMME LIMIT FROM US$5,000,000,000 TO US$10,000,000,000 BY THE COMPANY

Introduction

Reference is made to the announcement of the Company dated 10 April 2014 in relation to its establishment of the Programme.

The Board is pleased to announce that on 24 April 2015 the Company has updated the Programme and increased the limit on the aggregate principal amount of Notes which may be outstanding at any one time under the Programme from US$5,000,000,000 to US$10,000,000,000 (or its equivalent in other currencies).

The Company has appointed Deutsche Bank as the arranger under the Programme by way of an amended and restated dealer agreement dated 24 April 2015.

As at the date of this announcement, the Company has issued under the Programme approximately US$4.9 billion of the Notes.

Listing

An application has been made by the Company for the listing of the Programme with the increased Programme Limit of US$10,000,000,000 within 12 months after 24 April 2015 by way of debt issues to professional investors on the Stock Exchange. In relation to any issue of the Notes, the Company has the option to agree with the relevant dealer(s) to list the Notes on the Stock Exchange or any other recognised stock exchanges.

Proposed use of net proceeds

The Company currently intends to use the net proceeds from each issue of the Notes issued under the Programme for the Company's general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

Benefits of the Programme with the increased Programme Limit

The Company considers that the Programme with the increased Programme Limit is to make available a platform to enhance its flexibility and efficiency for future funding or capital management from a medium to long-term perspective. It is designed to allow Notes to be drawndown from time to time. The Company has no current intention to drawdown the entire amount of the Programme with the increased Programme Limit. The principal amount and timing of drawdown(s) of Notes under the Programme with the increased Programme Limit are dependent on several factors, including but not limited to, market conditions and the corporate needs of the Company.

GENERAL

As the Company may or may not proceed with drawdown(s) under the Programme, the timing of drawdown(s) (if any) is uncertain as it depends on market conditions and the corporate needs of the Company and, the terms of each drawdown may vary within the parameters set out in the Programme, Shareholders and prospective investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITION

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

Term	**Definition**
"Board"	the board of directors of the Company
"Company"	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and whose Shares are listed on the main board of the Stock Exchange

"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Notes"	medium term notes that may be issued from time to time by the Company to professional investors only under the Programme
"Pricing Supplement"	the document which sets out the terms specific to each series of the Notes to be issued under the Programme
"Programme"	the global medium term note programme established by the Company by way of a dealer agreement dated 10 April 2014 as updated and modified from time to time
"Programme Limit"	the limit on the aggregate principal amount of Notes which may be outstanding at any one time under the Programme
"Share(s)"	the ordinary share(s) with par value of HK$0.00002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S." or "United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction

"US$"	United States dollars, the lawful currency of the United States

By Order of the Board
Ma Huateng
Chairman

24 April 2015

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, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations as of and for the years ended 31 December 2012, 2013 and 2014, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited and unaudited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Circular, including "Risk Factors".

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country in terms of daily user reach in December 2014, according to iResearch. Our IM communities include QQ, a cross-platform communication platform, with total MAU of 815.3 million and smart devices MAU of 576.1 million, and Weixin and WeChat, mobile-based communication platform, with combined MAU of 500.0 million as of 31 December 2014. Our IM communities are the most engaged in the PRC with QQ users accounting for 90.2% of monthly time spent on PC IM services, and Mobile QQ and Weixin accounting for 74.7% and 85.0% of monthly active users respectively for Mobile IM services, in December 2014, according to iResearch.

We aim to become the hub for fulfilling people's online lifestyle needs, encompassing communication, social networking, entertainment and information. Leveraging technology and analytics, we are able to analyse social interest graphs and user behavioural data that allows us to create customized online experiences and identify market trends for new types of services based on the social preferences and needs of our users. We have built numerous highly popular platforms and services following the launch of our pilot product, QQ, in February 1999 including Weixin & WeChat, Qzone, QQ Game Platform, QQ.com, Tencent News, Tencent Video and QQ Music. Leading the adoption of mobile Internet in China and globally, we have extended our service offerings from PC to mobile interfaces by launching the highly popular communication application, Weixin, in 2011. We further broaden the types and the number of services offered to our users by allowing third-parties to publish applications on our open platforms.

Our business focuses on providing value for users, application developers and advertisers. Currently, we have four lines of business:

- ***Value-added Services*** — Our VAS business mainly consists of online games and social networks services. We offer a diversified game portfolio ranging from PC client games including MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including Qzone and premium services for QQ community. We monetise our VAS business primarily via monthly subscriptions and item-based sales on our SNS platforms and within PC and mobile games or other applications.

- ***Online Advertising*** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are primarily sold through GDT, a self-service real-time bidding performance advertising platform, and delivered primarily on our SNS platforms and other platforms.

- ***eCommerce Transactions*** — Our eCommerce transactions business involves B2C eCommerce transactions, sales of merchandise and services on our marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce. We divested our B2C and C2C eCommerce marketplaces due to our strategic transaction with JD.com in March 2014.

- ***Others*** — Our other services include trademark licensing, software development services and software sales.

We aim to build an Internet ecosystem that provides benefits to users, content providers, applications developers, our own platforms and the Internet industry as a whole. We believe our users are attracted to our large and active online communities as well as our diverse offering of innovative services and applications. We will continue to leverage our massive user base, our comprehensive online platforms and well recognised brand to capitalise on the continued growth in Internet and mobile usage in the PRC.

We commenced our business in November 1998 and went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2014, our total revenues was RMB78,932 million (US$12,722 million) and our profit for the year was RMB23,888 million (US$3,850 million), an increase of 31% and 53%, respectively, over the year ended 31 December 2013. As of 31 December 2014, our cash and cash equivalents and term deposits amounted to RMB58,342 million (US$9,403 million).

Recent Developments

On 11 February 2015, we issued the 2.875% Senior Notes due 2020 in an aggregate principal amount of US$1,100 million (the "**February 2020 Notes**") and 3.800% Senior Notes due 2025 in an aggregate principal amount of US$900 million (the "**2025 Notes**") for general corporate purposes under the Programme. See "*Description of Other Material Indebtedness — U.S. Dollar Borrowings — February 2020 Notes and 2025 Notes*".

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the most significant factors that have affected or are expected to affect our results of operations and financial condition include, among others:

Ability to maintain and increase our user base and monetise our user traffic

The growth of our business and revenues depends on our ability to maintain and expand our highly engaged user community. As of 31 December 2014, MAU of QQ reached 815.3 million, an increase of 0.9% from 808.0 million as of 31 December 2013. Smart device MAU of QQ reached 576.1 million, an increase of 32.5% from 434.8 million as of 31 December 2013. Combined MAU of Weixin and WeChat reached 500.0 million as of 31 December 2014, an increase of 40.8% from 355.0 million as of 31 December 2013.

We continuously seek to leverage the size of our user base and integrated nature of our platforms to build up user traffic for our new services and products, as well as drive revenue growth from VAS and online advertising. In addition, our large and logged-in user base and existing payment platform also makes our platforms more attractive to online advertisers and merchant partners.

We believe that the size of our user base also serves as the foundation for converting non-paying users into paying users. We have accumulated expertise in cross-marketing our services and products and have been able to migrate a large number of our users for QQ, Weixin, Qzone and other free services to fee-based services and products such as QQ Membership, PC and mobile games as well as item-based sales on our platforms. This in turn helps to support the growth of our VAS revenues.

For the years ended 31 December 2012, 2013 and 2014, our VAS revenues were RMB35,718 million, RMB44,985 million and RMB63,310 million (US$10,204 million), respectively. Cross-selling of our fee-based services and products to our existing VAS users is expected to continue to be a significant driver of our future revenue and profit growth.

Ability to maintain our market position and brand recognition

We have capitalised on our early-mover advantage and have established a strong market position and built a brand name widely recognised by PRC consumers and industry participants. Users may select our platforms, products and services because of our existing market position and brand reputation. For example, QQ is a widely recognised brand in the PRC and users seeking to join an IM platform will likely consider QQ as their primary choice because of the brand recognition and market leading position. Similarly, our Weixin platform has become the leading mobile communication and social service in the PRC. Our ability to compete effectively and to maintain our leading brand and market position is key to our ability to grow our user community, attract and expand relationships with our advertising customers and, in turn, grow our revenues.

Ability to develop, acquire and licence content and applications

In order to attract and maintain usage of our platforms, we need to develop, acquire and licence relevant content and applications for our users. Our ability to maintain existing licence arrangements, procure new licence arrangements and develop relevant content and applications will affect our users' engagement and usage of our platforms. We have devoted significant resources to the research and development of content and applications in order to keep our existing platforms relevant and attractive to users. Due to competition for third-party content and applications, content and application providers have been increasing their demands for upfront licence fees and/or royalty payments. As we seek to expand our business lines and diversify our portfolio of services and products, our ability to manage and control our third-party content and applications acquisition costs while maintaining the high quality and attractiveness of our content and applications will continue to affect our results of operations going forward.

Ability to maintain relationships with strategic partners

We derive value and benefits from our co-operative arrangements with a number of telecommunications operators, online game developers, content providers, application developers, device manufacturers, merchants, suppliers and advertising agencies. A portion of the fees for our VAS are collected through the networks of China Mobile, China Unicom and China Telecom through revenue sharing arrangements that are periodically renewed. We have adopted an open platform strategy and many of our platforms, including QQ, Weixin, Qzone, QQ Game Platform and YingYongBao, support third-party applications. We also have arrangements with third-party content providers and advertising agencies. The fees and costs paid for content and advertising agency fees to third parties, plus Channel Costs (as defined below) and bandwidth and server custody fees, were RMB9,996 million, RMB12,730 million and RMB17,249 million (US$2,780 million) for the years ended 31 December 2012, 2013 and 2014, respectively. Our ability to maintain existing and develop and foster new, strategic partnerships will be significant factors to enable us to meet the increasingly complex demands of our users and customers, expand our distribution channels and diversify our revenue streams.

Ability to continue offering services and products that are attractive to users and ability to manage cash flow, including working capital and capital expenditures

Our financial condition and results of operations depend on the attractiveness and demand for our service and product offerings. The rapid evolution of available technologies and infrastructure in the Internet and telecommunications industries, such as the expansion of the LTE platform, may allow us to deliver more innovative product and service offerings to our users.

In particular, online games represent one of the key growth drivers for our VAS business. We must continue to diversify our game portfolio and broaden our user base through the introduction of new expansion packs and new play-modes that can increase the lifespans of our popular PC online game titles, such as Cross Fire, QQ Dancer, Dungeon and Fighter, FIFA Online 3, League of Legends and QQ Speed, and popular mobile game titles, such as *Blade of the Three Kingdoms*, *Thunder Fighter, Timi Run Everyday*, and *The Legend of Sword and Fairy*. We also strive to leverage our platforms to accelerate the growth of mobile games, while reinforcing our leadership in PC client games. We must also identify and offer new game genres that can capture the growth potential of the industry in order to achieve sustainable growth of our online game business.

PRC regulations affecting the Internet and telecommunications industries

As a majority of our operations are located in the PRC, our results of operations, financial condition and prospects are subject to regulatory developments in the PRC. The Internet, telecommunications and other related industries of the PRC are highly regulated. Regulations issued or implemented by the State Council, MIIT, MOC, SAPPRFT and other relevant government authorities cover many aspects of our telecommunications, Internet information and other related services, including entry into the telecommunications industry, the scope of permissible business activities, licences and permits for various business activities and foreign investment. See "*General Regulation on Internet and Telecommunication Industries*" for further description. For example, because a significant portion of our revenues from online games and other products and services rely on large Internet user communities, any regulations that affect Internet access and usage, such as those relating to online game addiction, operations of Internet cafes and other establishments, Internet privacy, imported games, mobile subscriber cancellation policies and other regulations, will affect the ways we operate and provide our services and products.

In addition, because certain of our PRC subsidiaries and consolidated controlled entities qualified as "High and New Technology Enterprises" received preferential tax treatment or exemptions as of 31 December 2013 and applied for a renewal 3-year period from 2014 to 2016, any adverse changes in the status of such preferential tax treatment or exemptions would increase the costs of our business.

Macroeconomic conditions in the markets where we operate

Our results of operations and financial condition are affected by economic conditions in the PRC and, to a lesser extent, the economic conditions of the rest of the world. The PRC has experienced rapid economic growth over the past three decades. The growth of the PRC economy has led to significant increases in personal wealth and per capita annual disposable income which, in turn, has increased demand for VAS and products that we provide in our various business segments.

The continuing maturation of the PRC economy has been attended by a gradual slowdown in economic growth. The World Bank forecasts that the PRC economy will grow 7.1% in 2015. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about potential overinvestment and overleveraging in the PRC economy, the Eurozone sovereign debt crisis, and concerns about a renewed global recession similar to the economic crisis in 2008, may impact the growth of the PRC economy and PRC-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, it is unclear how PRC economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

Recruitment, compensation and retention of employees

The performance of our employees has a significant effect on our business. For example, our senior management team uses its experience and understanding of the PRC Internet and telecommunications industries, local user preferences and key industry players to formulate future growth strategies and respond to industry changes. Skilled research and development personnel are also critical to our development of new services and products (such as new online games) and leverage upon new technologies and infrastructures. The number of our full-time employees was 24,160, 27,492 and 27,690 as of 31 December 2012, 2013 and 2014, respectively. As our workforce expands we incur additional staff costs as costs of revenues to our business. Our total remuneration costs (including capitalised remuneration cost) were RMB7,724 million and RMB10,364 million and RMB15,451 million (US$2,490 million) for the years ended 31 December 2012, 2013 and 2014, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programs such as training, bonus and share options programs, which would further affect our staff costs.

BASIS OF PRESENTATION

During the periods presented in the consolidated financial statements, we derived substantially all of our revenues under a series of contractual arrangements between our WFOEs and our consolidated affiliated entities. These contractual arrangements are designed to provide us and the WFOEs with effective control over, and (to the extent permitted by PRC law) the right to acquire the equity interests in and assets of our consolidated affiliated entities. Based on such contractual arrangements, we have concluded that it is appropriate to consolidate the financial statements of our consolidated affiliated entities, notwithstanding the lack of direct share ownership, because, in substance, the contractual arrangements transfer the economic risks and benefits of these consolidated affiliated entities to us.

Our consolidated affiliated entities include, among others, Tencent Computer, Shiji Kaixuan, Beijing Emark Information and Technology Co. Limited, Nanjing Wang Dian Technology Company Limited, Beijing BIZCOM Technology Company Limited, Beijing Starsinhand Technology Company Limited, Shenzhen Shiji Tianyou Technology Company Limited and Guangzhou Yunxun Technology Company Limited. See "*Risk Factors — Risks Related to our Corporate Structure — If the PRC government finds that the agreements that establish the structure for operating our services in the PRC do not comply with PRC governmental restrictions on foreign investment in value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations*" and "*Risk Factors — Risks Related to our Corporate Structure — The contractual arrangements with the consolidated affiliated entities and their shareholders, which relate to critical aspects of our operations may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law*".

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We generate our revenues primarily from four lines of business:

- VAS;
- online advertising;
- eCommerce transactions; and
- others.

Our revenues were RMB43,894 million, RMB60,437 million and RMB78,932 million (US$12,722 million) for the years ended 31 December 2012, 2013 and 2014, respectively. The following table sets forth our revenues by lines of business for the periods indicated:

	Year ended 31 December						
	2012		2013		2014		
	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	(US$ in millions)	% of Total Revenues
Revenues							
VAS[(1)]	35,718	81	44,985	75	63,310	10,204	80
Online advertising	3,382	8	5,034	8	8,308	1,339	11
eCommerce transactions	4,428	10	9,796	16	4,753	766	6
Others	366	1	622	1	2,561	413	3
Total revenues	43,894	100	60,437	100	78,932	12,722	100

Note:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the year ended 31 December 2012 were restated to conform to the new segment information presentation format.

VAS

Revenues from VAS are primarily derived from the provision of online games and social networks services such as community VAS and item-based sales on our platforms, and accounts for the majority of our total revenues. Our VAS is primarily provided on a subscription basis or on a per-item basis. We derive a substantial portion of online games revenues from the item-based sales and subscription services offered by QQ Game Platform, ACGs such as *Cross Fire*, *QQ Dancer*, *FIFA Online 3*, *League of Legends* and *QQ Speed*, MMOGs such as *Dungeon and Fighter*, and mobile games. We also derive revenues from item-based sales and subscriptions from our community value-added services such as Qzone subscription service, QQ Membership and Supper VIP. In addition, we generate item-based sales revenues within the in-house and third-party applications offered through our platforms including Qzone, Mobile QQ, Weixin and QQ Game Platform.

Revenues from VAS were RMB35,718 million, RMB44,985 million and RMB63,310 million (US$10,204 million) for the years ended 31 December 2012, 2013 and 2014, respectively. Our online game business recently benefited from growth in PC client games and smart phone games integrated with Mobile QQ and Weixin. Our social networks revenues recently benefited from increased in-game item sales on mobile platforms and renewed growth of subscription services.

For a detailed discussion of how revenues from VAS is recognised in our consolidated financial statements, see "*— Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — VAS*".

Online advertising

Online advertising revenues are primarily derived from fees for selling brand display advertising inventory on our online video, IM clients, portals and other platforms, and performance display advertising inventory on our SNS platforms and other platforms. For brand display advertising, the majority of our fees are determined based on the length of time or the number of impressions of the advertisement and the location of the advertisement. For performance display advertising, our fees are mainly determined based on the number of clicks generated from the advertisement.

Revenues from online advertising were RMB3,382 million, RMB5,034 million and RMB8,308 million (US$1,339 million) for the years ended 31 December 2012, 2013 and 2014, respectively. Our online advertising business recently benefited from the significant growth in video advertising and performance-based social advertising on mobile.

For a detailed discussion of how revenues from online advertising is recognised in our consolidated financial statements, see "*— Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — Online Advertising*".

eCommerce transactions

Revenues from eCommerce transactions primarily consist of revenues generated from merchandise sales on our eCommerce platforms, which are comprised of transactions where we sell our own inventories as a principal and transactions where we act as an agent. For those eCommerce transactions in which we act as a principal, we report GMV after deducting discounts, return allowances and relevant taxes as revenues. For those eCommerce transactions in which we act as an agent, we report our commission and fixed fees (after deducting relevant taxes) as revenues.

Revenues for eCommerce transactions were RMB4,428 million, RMB9,796 million and RMB4,753 million (US$766 million) for the years ended 31 December 2012, 2013 and 2014, respectively. The recent decrease primarily reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Shanghai Icson business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions. Consequently, we divested certain of our B2C and C2C eCommerce marketplaces as part of our strategic transaction with JD.com and as a result ceased recognising related revenues and costs.

For a detailed discussion of how revenues from eCommerce transactions is recognised in our consolidated financial statements, see "*— Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — eCommerce Transactions*".

Others

Revenues from others mainly comprise of the provision of trademark licensing, software development services, software sales and other services. Revenues from others was RMB366 million, RMB622 million and RMB2,561 million (US$413 million) for the years ended 31 December 2012, 2013 and 2014, respectively.

Cost of revenues

Our cost of revenues were RMB18,207 million, RMB27,778 million and RMB30,873 million (US$4,976 million) for the years ended 31 December 2012, 2013 and 2014, respectively.

Cost of revenues consists of the direct costs for operating and offering our services and products, which consist primarily of sharing and content costs (mainly including content costs and agency fees), cost of merchandise sold, Channel Costs, bandwidth and server custody fees, depreciation of our equipment and other direct costs. Staff costs that directly relate to the provision of our services and products are also included in cost of revenues.

Sharing and content costs primarily consist of the content costs paid to game developers and content providers. From time to time, we engage third parties to develop content and we also license and purchase content from third parties. This content is used across our services and products, including content for our online games and mobile games, and allows us to expand the range of services we provide to our users.

Agency fees primarily consist of the sales commission paid to the advertising agencies and other intermediaries. We engage advertising agencies and other intermediaries to sell advertising inventory in forms such as banners and links. The commissions paid to advertising agencies and other sales intermediaries are recognised as cost of revenues.

Channel Costs include the commission based on certain percentages of the service fees collected by them and imbalance fees. Imbalance fees are payable by us for the excess of the number of messages sent from our Internet platforms to mobile phones over the number of messages sent from mobile phones to our Internet platforms.

We lease bandwidth from Internet data centres operated by network operators in the PRC. In addition, we have network servers located in Internet data centres operated by network operators in the PRC. We pay custody fees to such operators which are recognised in full as incurred.

Interest income

Interest income primarily consists of interest income from bank deposits including current term deposits, restricted cash and non-current term deposits.

Other (losses)/gains, net

Other (losses)/gains, net consist primarily of the gains on disposals/deemed disposals of investees and businesses, dividend income, subsidies and tax rebates, donation to the Tencent Charity Funds, losses from derivative financial instruments and impairment provision for investees.

Selling and marketing expenses

Selling and marketing expenses primarily consist of costs incurred with our promotional and advertising activities, such as purchasing third-party advertising, holding promotion events and related staff costs. In recent years, our selling and marketing expenses have increased as we continue to launch and promote new services and seek to enhance our brand recognition.

General and administrative expenses

General and administrative expenses primarily consist of research and development expenses, related staff costs, office rental, travel and entertainment expenses, consulting fees, office maintenance and other general office expenses.

Finance costs, net

Finance costs, net include interest expenses primarily arising from our borrowings, notes payable and our foreign currency exchange gains or losses.

Income tax expense

We were not subject to any income tax in the Cayman Islands or the BVI in 2012, 2013 and 2014. For the years ended 31 December 2012, 2013 and 2014, U.S. corporate income tax provision were made for entities within our Group that are incorporated in the United States on the estimated assessable profits at the rate of 36% and Hong Kong profits tax provision was provided on the estimated assessable profits at the rate of 16.5%.

Our revenues are primarily derived from our entities incorporated in the PRC. Our entities incorporated in the PRC are subject to income tax in the PRC. Our income tax expense was RMB2,266 million, RMB3,718 million and RMB5,125 million (US$826 million) for the years ended 31 December 2012, 2013 and 2014, respectively.

According to the 2008 CIT Law, effective on 1 January 2008, there is a 25% corporate income tax for domestic and foreign-invested enterprises on their worldwide income. However, the State Council provided certain transitional phase-out rules, which provided for a transition period to enterprises that had preferential tax treatment prior to the promulgation of the 2008 CIT Law. In particular, enterprises that were incorporated prior to 16 March 2007 and entitled to the exemptions or reduced income tax rates for fixed terms under the old foreign invested enterprise tax law would continue to enjoy such treatment until the expiry of such fixed terms provided that, for the enterprises whose preferential tax treatments have not commenced due to lack of taxable profit, the fixed preferential terms shall commence from the year of 2008. Under the 2008 CIT Law and its implementation rules, 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 a 3-year period from 2011 to 2013 and renewed for a 3-year period from 2014 to 2016 according to the applicable CIT Law. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in each year from 2012 to 2014 were further reduced to 10%.

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Group 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 operations or from the first year of profitable operation after offsetting tax losses generated from prior years.

According to the 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 subject to a withholding tax rate of 10%. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the Tax Arrangement, the relevant withholding tax rate could be reduced to 5% from 10%. Hence, the Group used 5% to accrue the withholding tax for certain Hong Kong intermediate holding companies which are expected to fulfil the aforesaid conditions.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial information. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involved the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. We believe the following represents our critical accounting policies, judgments and estimates.

Revenue Recognition

We principally derive revenues from the provision of VAS, online advertising services and eCommerce transactions services in the PRC.

VAS

Revenues from VAS are derived principally from the provision of online games, community VAS and applications across various Internet and mobile platforms.

VAS are primarily billed on a monthly subscription basis or on a per-item basis. Certain of these services are delivered to our customers through the platforms of various branches, subsidiaries and affiliates of telecommunications operators and through other third party platforms in the PRC. These operators and third party platforms also collect certain service fees (the "**Internet and Mobile Service Fees**") on our behalf.

In collecting the Internet and Mobile Service Fees on our behalf, these telecommunications operators and platforms are entitled to certain commission fee (collectively defined as the "**Channel Costs**"). The Channel Costs are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators and platforms from the users, with the net amounts remitted to us.

We recognise the Internet and Mobile Service Fees as revenues on a gross basis and treat the Channel Costs as cost of revenues.

VAS are primarily purchased by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by us through non-mobile channels such as sales agents appointed by us, telecommunications operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in our platforms and then access our online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "deferred revenues" in the statement of financial position. The amounts are then recognised as revenues based on the actual utilisation of the payment unit. When the payment unit is used to purchase services, the revenues are recognised when the related services are rendered, and when the payment unit is used to purchase virtual products/items in our Internet platforms, the revenues are recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship, whichever is the longer.

In relation to the sharing income derived from third-party games or applications which are available on our platforms and hosted by the developers, we recognise the related revenues on gross or net basis according to the terms of the relevant co-operation agreements. We pay the developers a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in the games and applications. We defer the related revenues over an estimated period as there is an implicit obligation for us to maintain and allow the users' access to the games or applications through our platforms.

We decide whether our revenue should be reported gross or net based on a continuing assessment of various factors, the primary factors being whether we are acting as the principal in offering services to the customer or whether the Group is acting as an agent in the transaction.

Online advertising

Online advertising revenues are primarily derived from fees for selling brand display advertising inventory on our online video, IM clients, portals and other platforms, as well as performance display advertising inventory on our SNS platforms and other platforms. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For brand display advertising contracts based on the actual time period that the advertisements are displayed on our websites, IM clients or other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed. For performance display advertising, the pricing of the advertising inventory is determined through pay-for-click systems and the revenues are recognised based on the number of clicks generated from the advertisement.

eCommerce transactions

Revenues from our eCommerce transactions are derived from sales of merchandise and provision of services through our eCommerce platforms. We recognise revenues from merchandise sales and related costs on a gross basis when we act as a principal. When we are not a principal and are instead acting as an agent, revenues are recognised on a net basis based on a pre-determined percentage. Whether we act as a principal or an agent in a transaction is determined based on several criteria, including whether we are a primary obligor, whether we are subject to inventory risk, whether we have latitude in establishing price and selecting suppliers, or whether we have several but not all of these indicators in a transaction.

For merchandise sold under eCommerce transactions, the customers place their orders online with a commitment made at a fixed selling price. Payment for the purchased merchandise is made either before delivery or upon delivery. When we are acting as a principal, revenues (net of discounts and return allowances and relevant taxes) are recognised when the merchandise is physically delivered to the respective customers. Return allowances, which reduce the gross amount of merchandise revenues, are estimated based on our historical experience.

We divested certain of our B2C and C2C eCommerce marketplaces and ceased recognising related revenues and costs after our strategic transaction with JD.com effective from March 2014.

Research and Development Expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives, not exceeding five years.

Share-based Compensation Expenses

We have adopted several share option schemes and share award schemes as part of our compensation benefits to employees. The fair value of the employee services received in exchange for the grant of options and awarded shares is recognised as an expense and credited to share premium. For grants of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted by using an option-pricing model, the Black-Scholes valuation model, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. As we use the Black-Scholes valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period, significant judgment on parameters, such as risk-free rate, dividend yield and expected volatility, is required to be made by the Directors in applying the Black-Scholes valuation model. The fair value of options granted was determined using the Black-Scholes valuation model and it was approximately HK$15 million, nil and HK$508 million for the years ended 31 December 2012, 2013 and 2014, respectively. There was no option granted to employees in 2013.

For grant of award shares, the total amount to be expensed over the vesting period is determined by reference to the market price of our shares at the grant date.

For both share options and awarded shares, we must estimate the expected yearly percentage of grantees of share options and awarded shares who will stay within the Group at the end of the vesting periods to determine the amount of share-based compensation expenses charged into the income statement.

Income Taxes

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the determination of ultimate tax liabilities is uncertain. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due and whether the final tax outcome of these matters is different from the amounts that were initially recorded. Such differences will impact current income tax and deferred income tax liabilities in the period in which such determination is made.

Recoverability of non-financial assets

We test annually whether goodwill has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates. Judgment is required to determine key assumptions adopted in the valuation models for impairment review purpose.

RESULTS OF OPERATIONS

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Revenues. Revenues increased by RMB18,495 million, or 31%, from RMB60,437 million in 2013 to RMB78,932 million (US$12,722 million) in 2014.

The following table sets forth our revenues by lines of business for the years ended 31 December 2013 and 2014:

	Year ended 31 December				
	2013		2014		
	Amount	% of total revenues	Amount		% of total revenues
	(RMB in millions)		(RMB in millions)	(US$ in millions)	
VAS	44,985	75	63,310	10,204	80
Online advertising	5,034	8	8,308	1,339	11
eCommerce transactions	9,796	16	4,753	766	6
Others	622	1	2,561	413	3
Total revenues	60,437	100	78,932	12,722	100

Revenues from VAS increased by RMB18,325 million, or 41%, from RMB44,985 million in 2013 to RMB63,310 million (US$10,204 million) in 2014. Online games revenues grew by RMB12,790 million, or 40%, from RMB31,966 million in 2013 to RMB44,756 million (US$7,214 million) in 2014. The increase was mainly driven by revenue growth from PC client games in China and international markets, as well as a significant increase in revenues from smart phone games integrated with Mobile QQ and Weixin, which were launched during 2013. Revenues from our social networks increased by RMB5,535 million, or 43% from RMB13,019 million in 2013 to RMB18,554 million (US$2,990 million) in 2014. The increase was primarily driven by in-game item sales within mobile platforms and, to a lesser extent, by subscription revenues, which registered renewed growth due to the enhancement of our mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service. As a percentage of total revenues, revenues from VAS increased from 75% in 2013 to 80% in 2014.

Revenues from online advertising increased by RMB3,274 million, or 65%, from RMB5,034 million in 2013 to RMB8,308 million (US$1,339 million) in 2014. The increase mainly reflected: (1) revenue growth from video advertising due to more viewers; and (2) higher contributions from performance-based social advertising, especially on our mobile services such as Mobile Qzone and Weixin Official Accounts. The positive impact of our strategic co-operation with JD.com also contributed to the growth. As a percentage of total revenues, revenues from online advertising increased from 8% in 2013 to 11% in 2014.

Revenues from eCommerce transactions decreased by RMB5,043 million, or 51%, from RMB9,796 million in 2013 to RMB4,753 million (US$766 million) in 2014. The decline mainly reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Yixun business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions. As a percentage of total revenues, revenues from eCommerce transactions decreased from 16% in 2013 to 6% in 2014.

Revenues from others increased by RMB1,939 million, or 312%, from RMB622 million in 2013 to RMB2,561 million (US$413 million) in 2014. As a percentage of total revenues, revenues from others increased from 1% in 2013 to 3% 2014.

Cost of revenues. Cost of revenues increased by RMB3,095 million, or 11%, from RMB27,778 million in 2013 to RMB30,873 million (US$4,976 million) in 2014. The increase mainly reflected greater sharing and content costs, staff costs, as well as bandwidth and server custody fees, 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 decreased to 39% for the year ended 31 December 2014. Excluding the eCommerce transactions business, cost of revenues increased by 43% to RMB26,426 million.

The following table sets forth our cost of revenues by lines of business for the years ended 31 December 2013 and 2014:

	Year ended 31 December				
	2013		2014		
	Amount	% of segment revenues	Amount		% of segment revenues
	(RMB in millions)		(RMB in millions)	(US$ in millions)	
VAS	15,384	34	20,619	3,323	33
Online advertising	2,777	55	4,660	751	56
eCommerce transactions	9,239	94	4,447	717	94
Others	378	61	1,147	185	45
Total cost of revenues	27,778		30,873	4,976	

Cost of revenues for VAS increased by RMB5,235 million, or 34%, from RMB15,384 million in 2013 to RMB20,619 million (US$3,323 million) in 2014. The increase was mainly driven by greater sharing and content costs, staff costs, as well as bandwidth and server custody fees. As a percentage of revenues generated from the same segment, cost of revenues decreased from 34% in 2013 to 33% in 2014.

Cost of revenues for online advertising increased by RMB1,883 million, or 68%, from RMB2,777 million in 2013 to RMB4,660 million (US$751 million) in 2014. The increase primarily reflected greater investment in video content and the acceleration of video content costs amortisation since the fourth quarter of 2013. Commissions payable to advertising agencies and staff costs also increased. As a percentage of revenues generated from the same segment, cost of revenues increased slightly from 55% in 2013 to 56% in 2014.

Cost of revenues for eCommerce transactions decreased by RMB4,792 million, or 52%, from RMB9,239 million in 2013 to RMB4,447 million (US$717 million) in 2014. The decrease was mainly driven by a decline in cost of merchandise sold due to lower revenues from principal eCommerce transactions. As a percentage of revenues generated from the same segment, cost of revenues remained the same at 94% in 2013 and 2014.

Cost of revenues for others increased by RMB769 million, or 203%, from RMB378 million in 2013 to RMB1,147 million (US$185 million) in 2014.

Gross profit. Gross profit increased by RMB15,400 million, or 47%, from RMB32,659 million in 2013 to RMB48,059 million (US$7,746 million) in 2014. Our gross margin was 61% in 2014 as compared to 54% in 2013.

Interest income. Interest income increased by RMB362 million, or 28%, from RMB1,314 million in 2013 to RMB1,676 million (US$270 million) in 2014.

Other gains, net. We recorded other gains, net of RMB2,759 million (US$444 million) in 2014, compared to other gains, net of RMB904 million in 2013. The increase primarily reflected: (1) an increase in net disposal gains related to investee companies and businesses mainly arising from our strategic transaction with JD.com and the sale of our equity interests in ChinaVision; and (2) the recognition of deemed disposal gains related to investee companies mainly arising from the merger of Kakao Corporation with a listed company, Daum Communications, and the IPO of JD.com. The increase was partly offset by higher impairment provision charges for selected investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB2,102 million, or 37%, from RMB5,695 million in 2013 to RMB7,797 million (US$1,257 million) in 2014. The increase was mainly due to significant subsidy programs for users and merchants of Weixin Payment, notably for booking taxi rides, as well as increased advertising spending on products and platforms such as online games, online media, and mobile utilities. As a percentage of total revenues, selling and marketing expenses increased from 9% in 2013 to 10% in 2014.

General and administrative expenses. General and administrative expenses increased by RMB4,167 million, or 42%, from RMB9,988 million in 2013 to RMB14,155 million (US$2,281 million) in 2014. This primarily reflected increases in research and development expenses and staff costs. As a percentage of total revenues, general and administrative expenses increased from 17% in 2013 to 18% in 2014.

Operating profit. Operating profit increased by RMB11,348 million, or 59%, from RMB19,194 million in 2013 to RMB30,542 million (US$4,922 million) in 2014.

Finance costs, net. We recorded finance costs, net of RMB1,182 million (US$190 million) in 2014 compared to finance costs, net of RMB84 million in 2013. The increase mainly reflected the recognition of foreign exchange losses due to exchange rate movements in the year ended 31 December 2014, compared to foreign exchange gains in the previous year, as well as higher interest expense as a result of an increase in amount of notes payable.

Profit before income tax. Profit before income tax increased by RMB9,732 million, or 50%, from RMB19,281 million in 2013 to RMB29,013 million (US$4,676 million) in 2014.

Income tax expense. Income tax expense increased by RMB1,407 million, or 38%, from RMB3,718 million in 2013 to RMB5,125 million (US$826 million) in 2014. The increase primarily reflected higher profit before tax and an increase in deferred tax liabilities in respect of withholding taxes.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB8,325 million, or 53%, from RMB15,563 million in 2013 to RMB23,888 million (US$3,850 million) in 2014. Our profit margin increased from 26% in 2013 to 30% in 2014.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB8,308 million, or 54%, from RMB15,502 million for the year ended 31 December 2013 to RMB23,810 million (US$3,837 million) for the year ended 31 December 2014.

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenues. Revenues increased by RMB16,543 million, or 38%, from RMB43,894 million in 2012 to RMB60,437 million in 2013.

The following table sets forth our revenues by lines of business for the years ended 31 December 2012 and 2013:

	Year ended 31 December			
	2012		2013	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS[1]	35,718	81	44,985	75
Online advertising	3,382	8	5,034	8
eCommerce transactions	4,428	10	9,796	16
Others	366	1	622	1
Total revenues	43,894	100	60,437	100

Note:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the year ended 31 December 2012 were restated to conform to the new segment information presentation format.

Revenues from VAS increased by RMB9,267 million, or 26%, from RMB35,718 million in 2012 to RMB44,985 million in 2013. Online games revenues grew by RMB8,149 million, or 34%, from RMB23,817 million in 2012 to RMB31,966 million in 2013. The increase primarily reflected growth in our major PC game titles in China and League of Legends in international markets as well as contributions from the launch of new PC game titles. Revenues from our social networks increased by RMB1,118 million, or 9% from RMB11,901 million in 2012 to RMB13,019 million in 2013. This was primarily driven by growth in item-based sales within applications on our open platforms, partly offset by a decline in subscription revenues. Revenues from our online games and social networks also benefited from initial contributions from smart phone games integrated with Mobile QQ and Weixin. As a percentage of total revenues, revenues from VAS decreased from 81% in 2012 to 75% in 2013.

Revenues from online advertising increased by RMB1,652 million, or 49%, from RMB3,382 million in 2012 to RMB5,034 million in 2013. This mainly reflected significant growth in revenues from performance-based social advertising and online video advertising. Revenues from traditional brand advertising also increased, though at a more moderate rate. Revenues from search advertising declined as we transferred our search business to Sogou in September 2013. As a percentage of total revenues, revenues from online advertising remained at 8% in 2013 as compared to 2012.

Revenues from eCommerce transactions increased by RMB5,368 million, or 121%, from RMB4,428 million in 2012 to RMB9,796 million in 2013. This was primarily driven by a significant increase in principal eCommerce transactions volume. Fees generated from transactions on our marketplaces also increased. As a percentage of total revenues, revenues from eCommerce transactions increased from 10% in 2012 to 16% in 2013.

Revenues from others increased by RMB256 million, or 70%, from RMB366 million in 2012 to RMB622 million in 2013.

Cost of revenues. Cost of revenues increased by RMB9,571 million, or 53%, from RMB18,207 million in 2012 to RMB27,778 million in 2013. This mainly reflected increases in cost of merchandise sold, as well as sharing and content costs. As a percentage of revenues, cost of revenues increased to 46% for the year ended 31 December 2013 from 41% for the year ended 31 December 2012, mainly due to a revenue mix shift towards the eCommerce transactions business.

The following table sets forth our cost of revenues by lines of business for the years ended 31 December 2012 and 2013:

	Year ended 31 December			
	2012		2013	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS[1]	12,064	34	15,384	34
Online advertising	1,733	51	2,777	55
eCommerce transactions	4,192	95	9,239	94
Others	218	60	378	61
Total cost of revenues	18,207		27,778	

Note:

(1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the year ended 31 December 2012 were restated to conform to the new segment information presentation format.

Cost of revenues for VAS increased by RMB3,320 million, or 28%, from RMB12,064 million in 2012 to RMB15,384 million in 2013. This mainly reflected an increase in sharing and content costs due to the growth in our business. Bandwidth and server custody fees as well as staff costs also increased. As a percentage of revenues generated from the same segment, cost of revenues remained at 34% in 2013 as compared to 2012.

Cost of revenues for online advertising increased by RMB1,044 million, or 60%, from RMB1,733 million in 2012 to RMB2,777 million in 2013. The increase partly arose from a periodic review of user video viewing patterns, prompting our decision to accelerate the amortisation of video content costs commencing in the fourth quarter of 2013, which resulted in a true up for the shortfall in such amortisation for previous years. This also reflected higher bandwidth and server custody fees as well as commissions payable to advertising agencies. Excluding the impact of the acceleration of video content costs amortisation and the related true up, which amounted to RMB317 million on aggregate, cost of revenues for our online advertising business would have increased by 42%. As a percentage of revenues generated from the same segment, cost of revenues increased from 51% in 2012 to 55% in 2013, primarily due to the impact of the acceleration of video content costs amortisation and the related true up.

Cost of revenues for eCommerce transactions increased by RMB5,047 million, or 120%, from RMB4,192 million in 2012 to RMB9,239 million in 2013. This mainly reflected an increase in cost of merchandise sold due to growth in our principal eCommerce transactions volume. As a percentage of revenues generated from the same segment, cost of revenues decreased from 95% in 2012 to 94% in 2013.

Cost of revenues for others increased by RMB160 million, or 73%, from RMB218 million in 2012 to RMB378 million in 2013.

Gross profit. Gross profit increased by RMB6,972 million, or 27%, from RMB25,687 million in 2012 to RMB32,659 million in 2013. Our gross margin was 54% in 2013 as compared to 59% in 2012.

Interest income. Interest income increased by RMB478 million, or 57%, from RMB836 million in 2012 to RMB1,314 million in 2013.

Other (losses)/gains, net. We recorded other gains, net of RMB904 million in 2013, compared to other losses, net of RMB284 million in 2012. The change primarily reflected a decrease in impairment provision for selected investees, as well as increases in disposal gains related to certain investees and subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by RMB2,701 million, or 90%, from RMB2,994 million in 2012 to RMB5,695 million in 2013. This mainly reflected a step up in marketing activities related to WeChat in international markets and an increase in advertising spending on online games, mobile utilities and eCommerce platforms. Staff costs also increased as our business expanded. As a percentage of total revenues, selling and marketing expenses increased from 7% in 2012 to 9% in 2013.

General and administrative expenses. General and administrative expenses increased by RMB2,222 million, or 29%, from RMB7,766 million in 2012 to RMB9,988 million in 2013. This primarily reflected increases in research and development expenses, staff costs (including share-based compensation) as well as other administrative expenses, such as office-related costs. As a percentage of total revenues, general and administrative expenses decreased from 18% in 2012 to 17% in 2013.

Operating profit. Operating profit increased by RMB3,715 million, or 24%, from RMB15,479 million in 2012 to RMB19,194 million in 2013.

Finance costs, net. We recorded finance costs, net of RMB84 million in 2013 compared to finance costs, net of RMB348 million in 2012. This mainly reflected the recognition of foreign exchange gains on our foreign currency denominated debts due to exchange rate movements in the year ended 31 December 2013, compared to foreign exchange losses in 2012.

Profit before income tax. Profit before income tax increased by RMB4,230 million, or 28%, from RMB15,051 million in 2012 to RMB19,281 million in 2013.

Income tax expense. Income tax expense increased by RMB1,452 million, or 64%, from RMB2,266 million in 2012 to RMB3,718 million in 2013. This primarily reflected higher profit before income tax and the absence of a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate for 2011 and 2012. The increase was partly offset by a decrease in deferred tax liabilities recognised in respect of withholding taxes.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB2,778 million, or 22%, from RMB12,785 million in 2012 to RMB15,563 million in 2013. Our profit margin decreased from 29% in 2012 to 26% in 2013.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB2,770 million, or 22%, from RMB12,732 million for the year ended 31 December 2012 to RMB15,502 million for the year ended 31 December 2013.

QUARTERLY RESULTS OF OPERATIONS

The following table presents our unaudited quarterly results of operations for the most recent eight quarters. You should read the table in conjunction with the consolidated financial information contained elsewhere in this Offering Circular. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary to fairly present results of operations for the quarters presented. Results of operations for any quarter are not necessarily indicative of results for any future quarters or full year.

	Three months ended							
	31 March 2013	**30 June 2013**	**30 September 2013**	**31 December 2013**	**31 March 2014**	**30 June 2014**	**30 September 2014**	**31 December 2014**
	(RMB in millions)							
Revenues:								
VAS	10,666	10,752	11,635	11,932	14,413	15,713	16,047	17,137
Online advertising	850	1,297	1,390	1,497	1,177	2,064	2,440	2,627
eCommerce transactions	1,914	2,199	2,359	3,324	2,524	1,324	459	446
Others	118	136	151	217	286	645	862	768
Total revenues	**13,548**	**14,384**	**15,535**	**16,970**	**18,400**	**19,746**	**19,808**	**20,978**
Cost of revenues	(5,954)	(6,590)	(7,036)	(8,198)	(7,800)	(7,574)	(7,167)	(8,332)
Gross profit	**7,594**	**7,794**	**8,499**	**8,772**	**10,600**	**12,172**	**12,641**	**12,646**
Interest income	277	324	336	377	375	406	452	443
Other gains, net	351	82	66	405	1,607	691	118	343
Selling and marketing expenses	(963)	(1,234)	(1,465)	(2,033)	(1,855)	(1,973)	(1,906)	(2,063)
General and administrative expenses	(2,196)	(2,401)	(2,621)	(2,770)	(2,937)	(3,453)	(3,790)	(3,975)
Operating profit	**5,063**	**4,565**	**4,815**	**4,751**	**7,790**	**7,843**	**7,515**	**7,394**
Finance (costs)/income, net	(82)	14	(22)	6	(238)	(354)	(317)	(273)
Share of (losses)/profits of associates and joint ventures	119	31	39	(18)	44	23	(139)	(275)
Profit before income tax	**5,100**	**4,610**	**4,832**	**4,739**	**7,596**	**7,512**	**7,059**	**6,846**
Income tax expense	(1,029)	(926)	(955)	(808)	(1,164)	(1,686)	(1,383)	(892)
Profit for the period	**4,071**	**3,684**	**3,877**	**3,931**	**6,432**	**5,826**	**5,676**	**5,954**

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 January 2013 to 31 December 2014. The growth in our quarterly revenues was primarily attributable to increases in revenues from our VAS, driven by growth in PC client games revenues due to the increased popularity of our existing games and the introduction of new games, contributions from smart phone games integrated with Mobile QQ and Weixin, as well as growth in social networks business. Our online advertising business was subject to seasonal fluctuation as advertisers usually reduce their advertising spending around the Chinese New Year holidays in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

On a consolidated basis, we currently fund our operations primarily with cash flows from operating activities. Our cash requirements relate primarily to:

- our working capital requirements, such as sharing and content costs, staff costs, bandwidth leasing and server custody fees, sales and marketing expenses and research and development expenses; and

- costs associated with the expansion of our business, such as the purchase of servers and network equipment.

We had cash and cash equivalents of RMB13,383 million, RMB20,228 million and RMB42,713 million (US$6,884 million) as of 31 December 2012, 2013 and 2014, respectively. Our term deposits included in current and non-current assets were RMB24,698 million, RMB31,043 million and RMB15,629 million (US$2,519 million) as of 31 December 2012, 2013 and 2014, respectively.

Our net current assets were RMB15,844 million, RMB20,419 million and RMB25,286 million (US$4,076 million) as of 31 December 2012, 2013 and 2014, respectively. Net current assets increased as of 31 December 2014 as compared to 31 December 2013 primarily due to higher cash and cash equivalents, partially offset by increases in other payables and accruals and deferred revenue in the same period. Net current assets increased in 2013 as compared to 2012 primarily due to higher term deposits, prepayments, deposits and other assets, and cash and cash equivalents, partially offset by increases in other payables and accruals, borrowings and deferred revenues in the same period.

We bill and collect revenues for our value-added services principally through these channels: prepaid Q-Coin cards, e-sales system, telecommunications operators and online banking. A majority of our revenues from value-added services are prepaid through Q-Coin cards, e-sales system and online banking, allowing us to minimise our credit risk.

Our accounts receivable were RMB2,354 million, RMB2,955 million and RMB4,588 million (US$739 million) as of 31 December 2012, 2013 and 2014, respectively. There are no contractual requirements for telecommunications operators to pay amounts owed to us within a specified period of time, these operators usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit of 90 days after full execution of the contracted advertisement order.

Our accounts payable were RMB4,212 million, RMB6,680 million and RMB8,683 million (US$1,399 million) as of 31 December 2012, 2013 and 2014, respectively. We normally settle the amount due to us according to the terms of our contracts.

Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2012, 2013 and 2014:

	Year ended 31 December			
	2012	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Net cash flows generated from operating activities	19,429	24,374	32,711	5,272
Net cash flows used in investing activities	(16,270)	(19,134)	(28,388)	(4,575)
Net cash flows (used in)/generated from financing activities	(2,386)	1,708	18,350	2,957
Net increase in cash and cash equivalents	773	6,948	22,673	3,654
Cash and cash equivalents at beginning of year	12,612	13,383	20,228	3,260
Exchanges losses on cash and cash equivalents	(2)	(103)	(188)	(30)
Cash and cash equivalents at end of year	13,383	20,228	42,713	6,884

Cash Flows from Operating Activities

In 2014, we had a cash flow from operating activities in the amount of RMB32,711 million (US$5,272 million). This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB31,859 million and changes in working capital in the amount of RMB5,555 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB4,703 million. The changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB8,018 million, (ii) an increase in deferred revenue of RMB2,687 million, (iii) an increase in accounts payable of RMB1,788 million, and (iv) a decrease in inventories of RMB1,300 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB1,752 million, (ii) an increase in accounts receivable of RMB1,418 million, (iii) an increase in restricted cash of RMB5,043 million, and (iv) a decrease in other tax liabilities of RMB25 million.

In 2013, we had a cash inflow from operating activities in the amount of RMB24,374 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB21,577 million and changes in working capital in the amount of RMB5,915 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB3,118 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB3,728 million, (ii) an increase in account payable of RMB2,036 million, (iii) an increase in other payables and accruals of RMB4,071 million, and (iv) an increase in other tax liabilities of RMB52 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB940 million, (ii) an increase in accounts receivable of RMB606 million, (iii) an increase in inventories of RMB815 million, and (iv) an increase in restricted cash of RMB1,611 million.

In 2012, we had a cash inflow from operating activities in the amount of RMB19,429 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB18,147 million and changes in working capital in the amount of RMB3,507 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB2,225 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB3,098 million, (ii) an increase in other payables and accruals of RMB1,786 million, (iii) an increase in accounts payable of RMB1,689 million, and (iv) an increase in other tax liabilities of RMB397 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB2,255 million, (ii) an increase in accounts receivable of RMB267 million, (iii) an increase in inventories of RMB301 million, and (iv) an increase in restricted cash of RMB640 million.

Cash Flows used in Investing Activities

Net cash used in investing activities for the year ended 31 December 2014 was RMB28,388 million (US$4,575 million), primarily reflecting the payment for acquisition of investments in associates in the amount of RMB31,929 million and payment for acquisition of investments in redeemable preference shares of associates in the amount of RMB2,524 million, purchase of available-for-sale financial assets of RMB4,622 million and purchase of fixed assets, construction in progress and investment properties in the amount of RMB4,296 million, partially offset by net receipt flow of term deposits with initial term of over three months in the amount of RMB15,444 million and interest received of RMB1,468 million.

Net cash used in investing activities for the year ended 31 December 2013 was RMB19,134 million, primarily reflecting the net payment flow for the term deposits of RMB6,345 million, the payment for acquisition of investment in associates of RMB4,155 million and payment for acquisition of investments in redeemable preference shares of associates in the amount of RMB301 million and the purchase of fixed assets, construction in progress and investment properties of RMB4,788 million, partially offset by interest received of RMB536 million and dividends received of RMB551 million.

Net cash used in investing activities for the year ended 31 December 2012 was RMB16,270 million, primarily reflecting the purchase of fixed assets, construction in progress and investment properties in the amount of RMB3,657 million and payments for interests in associates in the amount of RMB3,668 million, refund of restricted cash in the amount of RMB3,063 million and the net payment flow for term deposits in the amount of RMB10,981 million.

Cash Flows from/(used in) Financing Activities

Net cash generated from financing activities for the year ended 31 December 2014 was RMB18,350 million (US$2,957 million), primarily reflecting net proceeds from issuance of long-term notes of RMB17,842 million, proceeds from long-term borrowings of RMB4,293 million and proceeds from short-term borrowings of RMB2,549 million, partially offset by dividend paid to the Company's shareholders and the non-controlling interests of RMB1,919 million, repayment of short-term borrowings of RMB2,372 million and repayment of long-term borrowings of RMB1,693 million.

Net cash generated from financing activities for the year ended 31 December 2013 was RMB1,708 million, primarily reflecting proceeds from long-term bank borrowings of RMB2,846 million, proceeds from short-term bank borrowings of RMB2,320 million and net proceeds from issuance of long-term notes of RMB1,847 million, partially offset by repayment of long-term bank borrowings of RMB1,328 million, repayment of short-term bank borrowings of RMB986 million, payment for repurchase of shares of RMB1,325 million, dividend paid to the Company's shareholders and the non-controlling interests of RMB1,541 million.

Net cash used in financing activities for the year ended 31 December 2012 was RMB2,386 million, primarily reflecting proceeds from long-term borrowings of RMB2,215 million, proceeds from short-term borrowings of RMB982 million and net proceeds from issuance of long-term notes of RMB3,768 million, partially offset by repayment of short-term borrowings of RMB8,024 million and dividend paid to the Company's shareholders and the non-controlling interests of RMB1,225 million.

Capital Expenditure

Our capital expenditures consisted of additions (excluding business combinations) to fixed assets which primarily include, computers and servers, construction in progress, land use rights and intangible assets (excluding game and other content licences), were RMB4,493 million, RMB5,799 million and RMB4,718 million (US$760 million) for the years ended 31 December 2012, 2013 and 2014, respectively.

We believe that our existing cash and cash equivalents, cash flows from operations, term deposits will be sufficient to meet the anticipated cash needs for our operating activities and capital expenditures for at least the next 12 months.

INDEBTEDNESS

Our total borrowings amounted to RMB3,183 million, RMB5,912 million and RMB8,722 million (US$1,406 million) as of 31 December 2012, 2013 and 2014, respectively.

Our total notes payable amounted to RMB7,517 million, RMB9,141 million and RMB26,862 million (US$4,330 million) as of 31 December 2012, 2013 and 2014, respectively. On 12 December 2011, we completed the issue of the 2016 Notes. The 2016 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2016 Notes will mature on 12 December 2016. See "*Description of Other Material Indebtedness — U.S. Dollar Borrowings — 2016 Notes*". On 5 September 2012, we completed the issue of the 2018 Notes. The 2018 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2018 Notes will mature on 5 March 2018. See "*Description of Other Material Indebtedness — U.S. Dollar Borrowings — 2018 Notes*". On 10 September 2013, we completed the issue of the 2015 Notes. The 2015 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2015 Notes are non-publicly issued and will mature on 10 September 2015. See "*Description of Other Material Indebtedness — U.S. Dollar Borrowings — 2015 Notes*". On 29 April 2014, we completed the issue of the 2017 Notes. The 2017 Notes bear an interest at 2.000% per annum from 29 April 2014; payable semi-annually in arrears on 2 November and 2 May of each year. The 2017 Notes will mature on 2 May 2017. On 29 April 2014, we also completed the issue of the 2019 Notes. The 2019 Notes bear an interest at 3.375% per annum from 29 April 2014; payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes will mature on 2 May 2019. See "*Description of Other Material Indebtedness — U.S. Dollar Borrowings — 2017 Notes and 2019 Notes*". On 16 May 2014, we completed the issue of the January 2020 Notes. The January 2020 Notes bear an interest at 3.200% per annum from 16 May 2014; payable quarterly in arrear on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes will mature on 10 January 2020. See "*Description of Other Material Indebtedness — Hong Kong Dollar Borrowings — January 2020 Notes*". On 21 October 2014, we completed the issue of the April 2020 Notes. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014; payable annually in arrear on 21 October of each year. The April 2020 Notes will mature on 21 April 2020. See "*Description of Other Material Indebtedness — Hong Kong Dollar Borrowings — April 2020 Notes*".

The following table sets forth our debt as of the dates indicated:

	As of 31 December			
	2012	**2013**	**2014**	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Current:				
RMB bank borrowings				
— secured[1]	15	—	—	—
— unsecured	25	150	125	20
	40	150	125	20
USD bank borrowings				
— unsecured[2]	943	2,134	1,836	296
Current portion of long-term USD bank borrowings				
— unsecured[3]	94	305	1,254	202
	1,077	**2,589**	**3,215**	**518**
Non-current:				
Non-current portion of long-term USD bank borrowings				
— unsecured[3]	2,106	3,323	5,507	888
Total borrowings	**3,183**	**5,912**	**8,722**	**1,406**
Current:				
Notes payable[4]	—	—	1,834	296
Non-current:				
Notes payable[5]	7,517	9,141	25,028	4,034
Total notes payable	**7,517**	**9,141**	**26,862**	**4,330**
Total	**10,700**	**15,053**	**35,584**	**5,736**

Notes:

(1) No secured bank borrowings as of 31 December 2014.

(2) Unsecured short-term bank borrowings of carrying amount of RMB1,836 million as of 31 December 2014 were denominated in USD. The aggregate principal amount was US$300 million and the interest rates were LIBOR plus 0.85% to 1.00% per annum.

(3) Unsecured long-term bank borrowing of carrying amount of RMB6,761 million as of 31 December 2014, were denominated in USD. The aggregate principal amount was US$1,105 million and the interest rate was LIBOR plus 1.35% to 1.75% per annum.

(4) On 10 September 2013, we issued the 2015 Notes in an aggregate principal amount of US$300 million that will mature on 10 September 2015. The 2015 Notes bear interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year. The 2015 Notes were issued at 99.766% of the aggregate principal amount.

(5) On 12 December 2011, we issued the 2016 Notes in an aggregate principal amount of US$600 million that will mature on 12 December 2016. The 2016 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year. The 2016 Notes were issued at 99.740% of the aggregate principal amount. On 5 September 2012, we issued the 2018 Notes in an aggregate principal amount of US$600 million that will mature on 5 March 2018. The 2018 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year. The 2018 Notes were issued at 99.771% of the aggregate principal amount. On 29 April 2014, we issued the 2017 Notes in an aggregate principal amount of US$500 million that will mature on 2 May 2017. The 2017 Notes bear an interest at 2.000% per annum from 29 April 2014, payable semi-annually in arrears on 2 November and 2 May of each year. The 2017 Notes were issued at 99.797% of the aggregate principal amount. On 29 April 2014, we issued the 2019 Notes in an aggregate principal amount of US$2,000 million that will mature on 2 May 2019. The 2019 Notes bear an interest at 3.375% per annum from 29 April 2014, payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes were issued at 99.895% of the aggregate principal amount. On 16 May 2014, we issued the January 2020 Notes in an aggregate principal amount of HK$2,000 million that will mature on 10 January 2020. The January 2020 Notes bear an interests at 3.200% per annum from 16 May 2014, payable quarterly in arrear on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes were issued at 100.0% of the aggregate principal amount. On 21 October 2014, we completed the issue of the April 2020 Notes that will mature on 21 April 2020. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014; payable annually in arrear on 21 October of each year. The April 2020 Notes were issued at 100.0% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

The following table sets forth our capital commitments as of the dates indicated:

	As of 31 December			
	2012	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Contracted:				
Construction/purchase of building and purchase of land use rights	447	2,166	2,496	402
Purchase of other fixed assets	142	403	494	80
Capital investment in investees	868	854	912	147
	1,457	3,423	3,902	629
Authorised but not contracted:				
Construction/purchase of building and purchase of land use rights	1,109	851	3,242	522
Capital investment in investees	451	—	—	—
	1,560	851	3,242	522
Total	**3,017**	**4,274**	**7,144**	**1,151**

Operating Lease Commitments

The following table sets forth the future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as of the dates indicated:

	As of 31 December			
	2012	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Contracted:				
Not later than one year	533	760	746	120
Later than one year and not later than five years	1,360	2,013	1,347	218
Later than five years	288	1,455	1,200	193
Total	2,181	4,228	3,293	531

Other Commitments

The following table sets forth the future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements as of the dates indicated:

	As of 31 December			
	2012	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US$ in millions)
Contracted:				
Not later than one year	1,052	1,397	1,778	287
Later than one year and not later than five years	1,299	1,299	1,571	253
Total	2,351	2,696	3,349	540

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as of 31 December 2014.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Interest Rate Risk

We have interest-bearing assets including receivables in associates, term deposits and cash and cash equivalents. Our exposure to market rate risk for changes in interest rates relates primarily to our debt (including borrowings and long-term notes issued). Borrowings issued at variable rates expose us to cash flows interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. We have had bank borrowings and issued long-term notes denominated in U.S. dollars and H.K. dollars having variable and fixed interest rates as of 31 December 2014.

Price Risk

We are exposed to price risk because of our investments which are classified as available-for-sale financial assets and derivative financial instruments. These investments were made either for improving investment yield, maintaining high liquidity level simultaneously, or were strategic investments. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by our senior management, on a case by case basis. We are not exposed to commodity price risk.

Credit Risk

We are exposed to credit risk in relation to our cash and deposits (including restricted cash) with banks and financial institutions and other investments, as well as accounts and other receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets. To manage this risk, deposits are primarily placed with state-owned financial institutions in the PRC and high quality international financial institutions outside the PRC. There was no recent history of default of cash and cash equivalents and term deposits in relation to these financial institutions.

We may be also exposed to risks relating to our accounts receivable from telecommunications operators and advertising customers. A large portion of our Internet and Mobile Services Fees are derived from the service agreements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled back, the telecommunications operators alter the service agreements, or these operators experience financial difficulties and are unable to pay us, our VAS might be adversely affected in terms of recoverability of receivables. To manage this risk, we maintain frequent communication with the telecommunications operators to ensure the co-operation is effective. In view of our history of co-operation with the telecommunications operators and the sound collection history of receivables due from them, we believe that the credit risk inherent in our outstanding accounts receivable balances from these telecommunications operators is low.

We manage the risk relating to our accounts receivables from advertising customers by assessing the credit quality of each customer, taking into account their financial position, past experience and other factors, generally required prepayments representing a certain percentage of the total service fees for each advertising service.

Foreign Currency Exchange Risk

We mainly operate in the PRC with most of our transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in our activities including payment of dividends, share repurchases and offshore investments and operations, we hold some monetary assets denominated in U.S. dollars, H.K. dollars, Euro, and Korea Won subject to certain thresholds stated in our treasury mandate, borrow some loans denominated in U.S. dollars and issue long-term notes denominated in U.S. dollars and H.K. dollars from time to time. This exposes us to foreign exchange risk.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

As a result of the Group's continuous acquisitions and financing activities undertaken in recent years, the investing and financing business transactions of the Company and certain of the Group's overseas subsidiaries have increasingly placed reliance on U.S. dollars instead of RMB. As such, the Company and certain of the Group's overseas subsidiaries have changed the functional currency from RMB to U.S. dollars. Our directors consider U.S. dollars would be more appropriate to act as the functional currency in reflecting the underlying transactions that are relevant to the Company and these overseas subsidiaries. Such change has not resulted in any material effect on our financial information. The Group currently uses RMB as the functional currency of its consolidated financial information.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of our underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents. In order to improve liquidity, we also issued long-term notes and entered into long-term borrowings. We will, based on an assessment of relevant future costs and benefits, pursue such funding options as are appropriate.