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Tencent 腾讯
TENCENT HOLDINGS LIMITED
騰訊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 700)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2015. These interim results have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited Three months ended				
	31 March 2015	31 March 2014	Year- on-year change	31 December 2014	Quarter- on-quarter change
	(RMB in millions, unless specified)				
Revenues	22,399	18,400	22%	20,978	7%
Gross profit	13,434	10,600	27%	12,646	6%
Operating profit	9,372	7,790	20%	7,394	27%
Profit for the period	6,930	6,432	8%	5,954	16%
Profit attributable to equity holders of the Company	6,883	6,457	7%	5,860	17%
Non-GAAP profit attributable to equity holders of the Company	7,053	5,194	36%	6,723	5%
EPS ⁽¹⁾ (RMB per share)					
- basic	0.741	0.700	6%	0.632	17%
- diluted	0.733	0.690	6%	0.625	17%
Non-GAAP EPS ⁽¹⁾ (RMB per share)					
- basic	0.759	0.563	35%	0.725	5%
- diluted	0.752	0.555	35%	0.717	5%

⁽¹⁾ Since the second quarter of 2014, EPS has been stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been effective since the commencement of prior corresponding period.

BUSINESS REVIEW AND OUTLOOK

Overall Financial Performance

In the first quarter of 2015, revenues increased by 22% year-on-year to RMB22,399 million. Excluding the eCommerce transactions business, revenues increased by 40% year-on-year to RMB22,172 million.

- *VAS*. Revenues from our VAS business increased by 29% year-on-year to RMB18,626 million. Our online game business achieved healthy growth in revenues, mainly driven by our key genres and by smart phone games. Our social networks revenues expanded, reflecting increased in-game item sales on mobile platforms and increased contributions from subscription services.
- *Online advertising*. Revenues from our online advertising business increased by 131% year-on-year to RMB2,724 million, primarily driven by video advertising and performance-based social advertising on mobile. Video advertising benefited from more video views. The growth in performance-based social advertising on mobile was mainly driven by Mobile Qzone and Weixin Official Accounts.

Profit attributable to equity holders of the Company increased by 7% year-on-year to RMB6,883 million. Non-GAAP profit attributable to equity holders of the Company increased by 36% year-on-year to RMB7,053 million.

Strategic Highlights

In the first quarter of 2015, we conducted several initiatives to enhance our mobile ecosystem and develop our digital content businesses, such as:

- (1) Promoting our payment services through enriched payment scenarios, including our Chinese New Year Red Envelope gifting initiative, to attract more users to use our payment platforms;
- (2) Expanding our social advertising inventory on mobile, via selected advertisements inside Weixin Moments and via our third party advertising network; and
- (3) Partnering with NBA to exclusively offer users in China online video streams of NBA games and related digital content.

In terms of balance sheet management, in April 2015 we upsized the limit on the aggregate principal amount of our Global Medium Term Note Programme by USD5 billion to USD10 billion. In addition, Moody's and Standard & Poor's upgraded our long-term corporate credit ratings from A3 to A2 in March 2015 and from A- to A in April 2015, respectively.

Divisional and Product Highlights

Operating Information

	As at 31 March 2015	As at 31 March 2014	Year- on-year change	As at 31 December 2014	Quarter- on-quarter change
MAU of QQ	831.8	848.1	-1.9%	815.3	2.0%
Smart device MAU of QQ	603.2	490.2	23.1%	576.1	4.7%
PCU of QQ (for the quarter)	228.0	199.4	14.3%	217.4	4.9%
Combined MAU of Weixin and WeChat	549.4	395.8	38.8%	500.0	9.9%
MAU of Qzone	667.9	644.2	3.7%	654.1	2.1%
Smart device MAU of Qzone	567.6	467.3	21.5%	539.8	5.2%
Fee-based VAS registered subscriptions	81.7	88.0	-7.2%	83.7	-2.4%

Key Platforms

In the first quarter of 2015, QQ and Qzone benefited from further growth in mobile user base and enhanced user engagement.

- For QQ, smart device MAU increased by 23% year-on-year to 603 million at the end of the quarter, while overall PCU increased by 14% year-on-year to 228 million. Mobile QQ usage benefited from enhanced features in areas such as location-based groups, voice and video calls, short video sharing and document transmission.
- For Qzone, smart device MAU increased by 22% year-on-year to 568 million at the end of the quarter. User metrics increase was partly due to favourable seasonal effect of Chinese New Year festival. Further, user activity and stickiness continued to improve, benefiting from enhanced features in areas such as short video posting and photo editing.

Combined MAU of Weixin and WeChat reached 549 million at the end of the quarter, representing year-on-year growth of 39%.

- For Weixin, we deepened user engagement by providing users in major cities access to local public services such as transportation, utilities, healthcare and municipal services. We also extended the “shake” function to allow selected merchants to offer promotion coupons to users.
- For WeChat, we continued to drive user engagement in selected overseas markets.

Weixin Payment and Mobile QQ Wallet gained popularity as we launched initiatives to build user awareness and habit, such as Red Envelope gifting during the Chinese New Year festival.

Our online media platforms extended their leadership in China. Tencent News leveraged enhanced content, improved user experience and plug-ins to Mobile QQ and Weixin to consolidate its positions as the leading mobile news platform in China. Tencent Video solidified its position as the broadest-reach mobile video platform in China, thanks to enriched content and enhanced user experience.

VAS

In the first quarter of 2015, our social networks business benefited from year-on-year growth from in-game item sales on our mobile platforms, and higher subscription revenues as we enhanced the mobile privileges and mobile user experience for QQ Membership, Qzone and digital content subscription services. We will continue to add premium content for our literature, music and video subscription services.

In online games, we extended our leadership in China:

- For PC client games, the quarter saw a healthy year-on-year revenue increase as we benefited from growth in key genres. For instance, LoL registered a robust performance with an enlarged user base, and FIFA Online 3 contributed to the revenue growth with more in-game micro-transactions, including sales of player cards.

- For mobile games, we achieved strong year-on-year revenue growth with more users in the quarter. In the first quarter of 2015, total revenues from smart phone games (including those distributed via Mobile QQ and Weixin game centers, YingYongBao app store, and elsewhere) amounted to approximately RMB4.4 billion, increasing by 82% year-on-year and 8% quarter-on-quarter on a gross-to-gross basis, respectively¹. Consolidating our position as China's leading publisher of mobile games, we diversified our portfolio for smart phone games via introducing new genres, such as shooting games and quiz show games, and via licensing of sequels to popular PC and mobile games, and licensing of non-game IPs, such as I am MT2, Infinity Blade Saga, Carrot Fantasy 3, Naruto, and the mobile version of DnF.

Looking ahead, we aim to enrich our PC and mobile game portfolios in different genres and solidify our market leadership.

Online Advertising

Our online advertising business achieved rapid year-on-year revenue growth in the first quarter of 2015, mainly reflecting revenue growth in video advertising supported by higher viewer traffic, and increased revenues from performance-based social advertising driven by Mobile Qzone and Weixin Official Accounts. Approximately 40% of our brand display advertising revenues and 75% of our performance-based advertising revenues were generated on mobile platforms in the first quarter of 2015. Looking forward, we will continue to invest aggressively in key content to further build our traffic, and we will expand our mobile advertising inventory and enhance our performance-based advertising service capabilities.

¹ In the first quarter of 2015, total revenues from smart phone games distributed via Mobile QQ and/or Weixin game centers amounted to approximately RMB4.0 billion, increasing by 80% year-on-year and 5% quarter-on-quarter on a gross-to-gross basis, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2015 Compared to First Quarter of 2014

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

	Unaudited	
	Three months ended	
	31 March	31 March
	2015	2014
	(RMB in millions)	
Revenues	22,399	18,400
Cost of revenues	<u>(8,965)</u>	<u>(7,800)</u>
Gross profit	13,434	10,600
Interest income	521	375
Other gains, net	411	1,607
Selling and marketing expenses	(1,326)	(1,855)
General and administrative expenses	<u>(3,668)</u>	<u>(2,937)</u>
Operating profit	9,372	7,790
Finance costs, net	(433)	(238)
Share of (losses)/profits of associates and joint ventures	<u>(310)</u>	<u>44</u>
Profit before income tax	8,629	7,596
Income tax expense	<u>(1,699)</u>	<u>(1,164)</u>
Profit for the period	<u>6,930</u>	<u>6,432</u>
Attributable to:		
Equity holders of the Company	6,883	6,457
Non-controlling interests	<u>47</u>	<u>(25)</u>
	<u>6,930</u>	<u>6,432</u>
Non-GAAP profit attributable to equity holders of the Company	<u>7,053</u>	<u>5,194</u>

Revenues. Revenues increased by 22% to RMB22,399 million for the first quarter of 2015 from the first quarter of 2014. Excluding the eCommerce transactions business, revenues increased by 40% to RMB22,172 million. The following table sets forth our revenues by line of business for the first quarter of 2015 and the first quarter of 2014:

	Unaudited			
	Three months ended			
	31 March 2015		31 March 2014	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS ⁽¹⁾	18,626	83%	14,413	78%
Online advertising	2,724	12%	1,177	6%
Others ⁽²⁾	1,049	5%	2,810	16%
Total revenues	<u>22,399</u>	<u>100%</u>	<u>18,400</u>	<u>100%</u>

Note:

⁽¹⁾ Since the fourth quarter of 2014, we recognise revenues from smart phone games we publish on an exclusive basis on a gross basis, primarily to reflect changes in our co-operation models that qualify us the principal, rather than agent, for certain licensed titles. Correspondingly, we recorded revenue sharing with third-party developers and channel costs of these titles in costs of revenues, instead of treating them as contra-revenue items.

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

— Revenues from our VAS business increased by 29% to RMB18,626 million for the first quarter of 2015 from the first quarter of 2014. Online game revenues increased by 28% to RMB13,313 million. The increase was mainly driven by revenue growth from smart phone games, primarily reflecting our diversified game portfolio and, to a lesser extent, the impact of the aforementioned adoption of gross revenue recognition. Revenues from PC client games also contributed to the increase, driven by growth in our key genres. Social networks revenues grew by 32% to RMB5,313 million. The increase primarily reflected revenue growth from in-game item sales within mobile platforms, and higher subscription revenues from our QQ Membership, Qzone and digital content subscription services. If gross revenue recognition for smart phone games was adopted for the first quarter of 2014, revenues from our VAS business, online games, and social networks would have increased by 26%, 24% and 29% respectively for the first quarter of 2015.

- Revenues from our online advertising business increased by 131% to RMB2,724 million for the first quarter of 2015, whereas brand display advertising revenues and performance-based advertising revenues increased by 90% and 199% year-on-year, respectively. The increase was mainly driven by revenue growth in video advertising due to more viewers, and higher contributions from performance-based social advertising on mobile driven by Mobile Qzone and Weixin Official Accounts.

Cost of revenues. Cost of revenues increased by 15% to RMB8,965 million for the first quarter of 2015 from the first quarter of 2014. The increase mainly reflected greater sharing and content costs, channel costs, as well as staff costs, largely offset by a significant decline in cost of merchandise sold due to decreased revenues from principal eCommerce transactions. As a percentage of revenues, cost of revenues decreased to 40% for the first quarter of 2015 from 42% for the first quarter of 2014. The following table sets forth our cost of revenues by line of business for the first quarter of 2015 and the first quarter of 2014:

	Unaudited			
	Three months ended			
	31 March 2015		31 March 2014	
	Amount	% of revenues segment	Amount	% of revenues segment
	(RMB in millions, unless specified)			
VAS	6,454	35%	4,371	30%
Online advertising	1,662	61%	766	65%
Others	849	81%	<u>2,663</u>	95%
Total cost of revenues	<u>8,965</u>		<u>7,800</u>	

- Cost of revenues for our VAS business increased by 48% to RMB6,454 million for the first quarter of 2015 on a year-on-year basis. The increase primarily reflected greater sharing and content costs, channel costs, and staff costs. If gross revenue recognition for smart phone games was adopted for the first quarter of 2014, cost of revenues for our VAS business would have increased by 35%.
- Cost of revenues for our online advertising business increased by 117% to RMB1,662 million for the first quarter of 2015 on a year-on-year basis. The increase mainly reflected greater investment in video content and commissions payable to advertising agencies.

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

Cost of revenues for our other businesses decreased by 68% to RMB849 million for the first quarter of 2015 on a year-on-year basis. The decrease was primarily due to a decline in eCommerce costs, partially offset by Red Envelope gifting related expenses, among other items.

Other gains, net. Other gains, net decreased by 74% to RMB411 million for the first quarter of 2015 from the first quarter of 2014. The decrease was mainly driven by the absence of disposal gains resulting from our strategic transaction with JD.com in the first quarter of 2014. The decrease was partially offset by deemed disposal gains related to investee companies, and lower impairment provision charges for selected investee companies.

Selling and marketing expenses. Selling and marketing expenses decreased by 29% to RMB1,326 million for the first quarter of 2015 from the first quarter of 2014. The decrease mainly reflected reduced subsidies provided to users for taxi-hailing using Weixin Payment, versus the year earlier period. As a percentage of revenues, selling and marketing expenses decreased to 6% for the first quarter of 2015 from 10% for the first quarter of 2014.

General and administrative expenses. General and administrative expenses increased by 25% to RMB3,668 million for the first quarter of 2015 from the first quarter of 2014. The increase mainly reflected higher research and development expenses and staff costs, in turn due to increased compensation. As a percentage of revenues, general and administrative expenses were 16% for the first quarter of 2015, broadly stable compared to the first quarter of 2014.

Finance costs, net. Finance costs, net increased by 82% to RMB433 million for the first quarter of 2015 from the first quarter of 2014. The increase was primarily driven by higher interest expense as a result of an increase in amount of notes payable.

Income tax expense. Income tax expense increased by 46% to RMB1,699 million for the first quarter of 2015 from the first quarter of 2014. The increase mainly reflected higher profit before income tax. In the first quarter of 2014, we recognised a reversal of income tax expense for a subsidiary in China which became eligible for a lower CIT rate, and recorded the deferred tax liabilities in respect of withholding taxes.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 7% to RMB6,883 million for the first quarter of 2015 from the first quarter of 2014. Non-GAAP profit attributable to equity holders of the Company increased by 36% to RMB7,053 million for the first quarter of 2015 from the first quarter of 2014.

First Quarter of 2015 Compared to Fourth Quarter of 2014

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

	Unaudited	
	Three months ended	
	31 March	31 December
	2015	2014
	(RMB in millions)	
Revenues	22,399	20,978
Cost of revenues	<u>(8,965)</u>	<u>(8,332)</u>
Gross profit	13,434	12,646
Interest income	521	443
Other gains, net	411	343
Selling and marketing expenses	(1,326)	(2,063)
General and administrative expenses	<u>(3,668)</u>	<u>(3,975)</u>
Operating profit	9,372	7,394
Finance costs, net	(433)	(273)
Share of losses of associates and joint ventures	<u>(310)</u>	<u>(275)</u>
Profit before income tax	8,629	6,846
Income tax expense	<u>(1,699)</u>	<u>(892)</u>
Profit for the period	<u>6,930</u>	<u>5,954</u>
Attributable to:		
Equity holders of the Company	6,883	5,860
Non-controlling interests	<u>47</u>	<u>94</u>
	<u>6,930</u>	<u>5,954</u>
Non-GAAP profit attributable to equity holders of the Company	<u>7,053</u>	<u>6,723</u>

Revenues. Revenues increased by 7% to RMB22,399 million for the first quarter of 2015 from the fourth quarter of 2014. Excluding the eCommerce transactions business, revenues increased by 8% to RMB22,172 million.

- Revenues from our VAS business increased by 9% to RMB18,626 million for the first quarter of 2015 from the fourth quarter of 2014. Online game revenues increased by 11% to RMB13,313 million. The increase was mainly driven by revenue growth from our major PC client games which benefited from promotional activities and positive seasonality. Smart phone games also contributed to the increase. Social networks revenues increased by 3% to RMB5,313 million. The increase was primarily driven by in-game item sales within mobile platforms, as well as growth in subscription services revenues from our QQ Membership and digital content subscription services.
- Revenues from our online advertising business increased by 4% to RMB2,724 million for the first quarter of 2015 from the fourth quarter of 2014. The increase mainly reflected revenue growth from performance-based social advertising on mobile, to a lesser extent, an increase in video advertising revenues, partly offset by the impact of slower seasonality on advertisers' spending around the Chinese New Year holidays.

Cost of revenues. Cost of revenues increased by 8% to RMB8,965 million for the first quarter of 2015 from the fourth quarter of 2014. The increase primarily reflected greater sharing and content costs, channel costs, as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues was 40% for the first quarter of 2015, broadly stable compared to the fourth quarter of 2014.

- Cost of revenues for our VAS business increased by 5% to RMB6,454 million for the first quarter of 2015 on a quarter-on-quarter basis. The increase mainly reflected greater sharing and content costs, as well as channel costs.
- Cost of revenues for our online advertising business increased by 5% to RMB1,662 million for the first quarter of 2015 on a quarter-on-quarter basis. The increase was primarily driven by greater investment in video content.
- Cost of revenues for our other businesses increased by 45% to RMB849 million for the first quarter of 2015 on a quarter-on-quarter basis. The increase was primarily due to, among others, Red Envelope gifting related expenses, partially offset by decline in eCommerce costs.

Selling and marketing expenses. Selling and marketing expenses decreased by 36% to RMB1,326 million for the first quarter of 2015 from the fourth quarter of 2014. The decrease primarily reflected a seasonal reduction in advertising and promotional activities.

General and administrative expenses. General and administrative expenses decreased by 8% to RMB3,668 million for the first quarter of 2015 from the fourth quarter of 2014. In the first quarter of 2015, administrative expenses decreased due to lower consultancy fees, outsourcing costs for ad-hoc research and development activities, and office-related costs.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 17% to RMB6,883 million for the first quarter of 2015 from the fourth quarter of 2014. Non-GAAP profit attributable to equity holders of the Company increased by 5% to RMB7,053 million for the first quarter of 2015 from the fourth quarter of 2014 .

Other Financial Information

	Unaudited		
	Three months ended		
	31 March	31 December	31 March
	2015	2014	2014
	(RMB in millions, unless specified)		
EBITDA (a)	9,945	7,929	6,787
Adjusted EBITDA (a)	10,506	8,424	7,121
Adjusted EBITDA margin (b)	47%	40%	39%
Interest expense	329	264	112
Net cash (c)	25,319	22,758	34,245
Capital expenditures (d)	1,332	1,603	1,138

Note:

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

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

	Unaudited		
	Three months ended		
	31 March	31 December	31 March
	2015	2014	2014
	(RMB in millions, unless specified)		
Operating profit	9,372	7,394	7,790
Adjustments:			
Interest income	(521)	(443)	(375)
Other (gains)/losses, net	(411)	(343)	(1,607)
Depreciation of fixed assets and investment properties	782	766	704
Amortisation of intangible assets	723	555	275
EBITDA	9,945	7,929	6,787
Equity-settled share-based compensation	561	495	334
Adjusted EBITDA	<u>10,506</u>	<u>8,424</u>	<u>7,121</u>

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the first quarters of 2015 and 2014, and the fourth quarter of 2014 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 31 March 2015							
	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
(RMB in millions, unless specified)							
Operating profit	9,372	561	32	(839)	50	223	9,399
Profit for the period	6,930	561	32	(829)	227	223	7,144
Profit attributable to equity holders	6,883	541	31	(829)	220	207	7,053
EPS ⁽¹⁾ (RMB per share)							
- basic	0.741						0.759
- diluted	0.733						0.752
Operating margin	42%						42%
Net margin	31%						32%

Unaudited three months ended 31 December 2014							
	As reported	Adjustments					Non-GAAP
		Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
(RMB in millions, unless specified)							
Operating profit	7,394	495	149	(1,153)	13	1,170	8,068
Profit for the period	5,954	495	149	(1,155)	228	1,170	6,841
Profit attributable to equity holders	5,860	488	136	(1,158)	227	1,170	6,723
EPS ⁽¹⁾ (RMB per share)							
- basic	0.632						0.725
- diluted	0.625						0.717
Operating margin	35%						38%
Net margin	28%						33%

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	(Gains)/losses on deemed disposals/ disposals (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)						
Operating profit	7,790	334	234	(2,717)	16	820	6,477
Profit for the period	6,432	334	234	(2,669)	55	820	5,206
Profit attributable to equity holders	6,457	328	219	(2,682)	52	820	5,194
EPS ⁽¹⁾ (RMB per share)							
- basic	0.700						0.563
- diluted	0.690						0.555
Operating margin	42%						35%
Net margin	35%						28%

⁽¹⁾ Since the second quarter of 2014, EPS has been stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been effective since the commencement of prior corresponding period.

Note:

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

Liquidity and Financial Resources

Our net cash positions as at 31 March 2015 and 31 December 2014 are as follows:

	Unaudited 31 March 2015 (RMB in millions)	Audited 31 December 2014
Cash and cash equivalents	55,583	42,713
Term deposits	<u>18,268</u>	<u>15,629</u>
	73,851	58,342
Borrowings	(9,369)	(8,722)
Notes payable	<u>(39,163)</u>	<u>(26,862)</u>
Net cash	<u>25,319</u>	<u>22,758</u>

As at 31 March 2015, the Group had net cash of RMB25,319 million. The sequential increase in net cash was mainly driven by operating cash flow generation and controlled capital expenditures, partly offset by payments for investments in investee companies. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB74 billion as at 31 March 2015.

As at 31 March 2015, RMB17,695 million of our financial resources were held in deposits denominated in non-RMB currencies.

For the first quarter of 2015, the Group had free cash flow of RMB8,350 million. This was a result of net cash generated from operating activities of RMB9,688 million, offset by payments for capital expenditure of RMB1,338 million.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

		Unaudited	Audited
		31 March	31 December
		2015	2014
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Fixed assets		7,774	7,918
Construction in progress		4,402	3,830
Investment properties		266	268
Land use rights		748	751
Intangible assets		10,441	9,304
Investments in associates	3(a)	53,161	51,131
Investments in redeemable preference shares of associates	3(b)	4,276	2,941
Investment in joint ventures		563	63
Deferred income tax assets		432	322
Available-for-sale financial assets	4	17,171	13,277
Prepayments, deposits and other assets		996	1,209
Term deposits		<u>4,121</u>	<u>4,831</u>
		<u>104,351</u>	<u>95,845</u>
Current assets			
Inventories		279	244
Accounts receivable	5	5,195	4,588
Prepayments, deposits and other assets		9,153	7,804
Term deposits		14,147	10,798
Restricted cash		13,832	9,174
Cash and cash equivalents		<u>55,583</u>	<u>42,713</u>
		<u>98,189</u>	<u>75,321</u>
Total assets		<u><u>202,540</u></u>	<u><u>171,166</u></u>

		Unaudited	Audited
		31 March	31 December
		2015	2014
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to the Company's equity holders			
Share capital		—	—
Share premium		5,599	5,131
Shares held for share award schemes		(1,363)	(1,309)
Other reserves		3,070	2,129
Retained earnings		<u>80,940</u>	<u>74,062</u>
		88,246	80,013
Non-controlling interests		<u>2,424</u>	<u>2,111</u>
Total equity		<u>90,670</u>	<u>82,124</u>
LIABILITIES			
Non-current liabilities			
Borrowings	7	5,835	5,507
Notes payable	8	37,322	25,028
Long-term payables		2,644	2,052
Deferred income tax liabilities		2,739	2,942
Deferred revenue		<u>3,256</u>	<u>3,478</u>
		51,796	39,007
Current liabilities			
Accounts payable	9	10,061	8,683
Other payables and accruals		23,125	19,123
Borrowings	7	3,534	3,215
Notes payable	8	1,841	1,834
Current income tax liabilities		1,546	461
Other tax liabilities		785	566
Deferred revenue		<u>19,182</u>	<u>16,153</u>
		60,074	50,035
Total liabilities		<u>111,870</u>	<u>89,042</u>
Total equity and liabilities		<u>202,540</u>	<u>171,166</u>
Net current assets		<u>38,115</u>	<u>25,286</u>
Total assets less current liabilities		<u>142,466</u>	<u>121,131</u>

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

		Unaudited	
		Three months ended	
		31 March	
		2015	2014
		Note	
		RMB'Million	RMB'Million
Revenues			
Value-added services		18,626	14,413
Online advertising		2,724	1,177
Others		<u>1,049</u>	<u>2,810</u>
		22,399	18,400
Cost of revenues	11	<u>(8,965)</u>	<u>(7,800)</u>
Gross profit		13,434	10,600
Interest income		521	375
Other gains, net	10	411	1,607
Selling and marketing expenses	11	(1,326)	(1,855)
General and administrative expenses	11	<u>(3,668)</u>	<u>(2,937)</u>
Operating profit		9,372	7,790
Finance costs, net		(433)	(238)
Share of (losses)/profits of associates and joint ventures		<u>(310)</u>	<u>44</u>
Profit before income tax		8,629	7,596
Income tax expense	12	<u>(1,699)</u>	<u>(1,164)</u>
Profit for the period		<u><u>6,930</u></u>	<u><u>6,432</u></u>

Unaudited
Three months ended
31 March
2015 2014
Note RMB'Million RMB'Million

Attributable to:

Equity holders of the Company		6,883	6,457
Non-controlling interests		<u>47</u>	<u>(25)</u>
		<u>6,930</u>	<u>6,432</u>

Earnings per share for profit attributable to equity holders of the Company (in RMB per share)

			Restated ⁽¹⁾
- basic	13	<u>0.741</u>	<u>0.700</u>
- diluted	13	<u>0.733</u>	<u>0.690</u>

⁽¹⁾ Comparative figures have been restated on the assumption that the Share Subdivision had been effective since the commencement of prior corresponding period.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB'Million	RMB'Million
Profit for the period	<u>6,930</u>	<u>6,432</u>
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates	70	8
Net gains/(losses) from changes in fair value of available-for-sale financial assets	1,764	(37)
Currency translation differences	<u>187</u>	<u>17</u>
	<u>2,021</u>	<u>(12)</u>
Total comprehensive income for the period	<u>8,951</u>	<u>6,420</u>
Attributable to:		
Equity holders of the Company	8,898	6,441
Non-controlling interests	<u>53</u>	<u>(21)</u>
	<u>8,951</u>	<u>6,420</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2015

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for share award schemes	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	
Balance at 1 January 2015	—	5,131	(1,309)	2,129	74,062	80,013	2,111	82,124
Comprehensive income								
Profit for the period	—	—	—	—	6,883	6,883	47	6,930
Other comprehensive income:								
- share of other comprehensive income of associates	—	—	—	70	—	70	—	70
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	1,764	—	1,764	—	1,764
- currency translation differences	—	—	—	181	—	181	6	187
Total comprehensive income for the period	—	—	—	2,015	6,883	8,898	53	8,951
Transaction with owners								
Capital injection	—	—	—	—	—	—	5	5
Employee share option schemes:								
- value of employee services	—	63	—	42	—	105	6	111
- proceeds from shares issued	—	40	—	—	—	40	—	40
Employee share award schemes:								
- value of employee services	—	374	—	62	—	436	14	450
- shares purchased for share award schemes	—	—	(63)	—	—	(63)	—	(63)
- vesting of awarded shares	—	(9)	9	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	5	(5)	—	—	—
Total contributions by and distributions to owners recognised directly in equity for the period	—	468	(54)	109	(5)	518	25	543
Non-controlling interests arising from business combination	—	—	—	—	—	—	247	247
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	12	—	12	(12)	—
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	—	—	—	(1,195)	—	(1,195)	—	(1,195)
Total transactions with owners recognised directly in equity for the period	—	468	(54)	(1,074)	(5)	(665)	260	(405)
Balance at 31 March 2015	—	5,599	(1,363)	3,070	80,940	88,246	2,424	90,670

Unaudited

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB' Million	RMB' Million
Net cash flows generated from operating activities	9,688	6,574
Net cash flows used in investing activities	(9,540)	(3,378)
Net cash flows generated from financing activities	<u>12,787</u>	<u>3,043</u>
Net increase in cash and cash equivalents	12,935	6,239
Cash and cash equivalents at beginning of the period	42,713	20,228
Exchange (losses)/gains on cash and cash equivalents	<u>(65)</u>	<u>56</u>
Cash and cash equivalents at end of the period	<u>55,583</u>	<u>26,523</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	20,707	20,580
Term deposits and highly liquid investments with initial term within three months	<u>34,876</u>	<u>5,943</u>
	<u>55,583</u>	<u>26,523</u>

Note:

1 General information, basis of preparation and presentation

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

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

The consolidated statement of financial position as at 31 March 2015, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 13 May 2015.

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

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2014 as set out in the 2014 annual report of the Company dated 18 March 2015 (the “2014 Financial Statements”).

The accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2014 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of assets and liabilities stated at fair value, such as available-for-sale financial assets.

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

The standards adopted by the Group, which are mandatory for the financial year of the Group beginning 1 January 2015, have no material impact on the Group’s Interim Financial Information.

2 Segment information

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

The Group has following reportable segments for the three months ended 31 March 2015 and 2014:

- VAS;
- Online advertising; and
- Others

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

There were no material inter-segment sales during the three months ended 31 March 2015 and 2014. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three months ended 31 March 2015 and 2014 is as follows:

	Unaudited Three months ended 31 March 2015			
	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>18,626</u>	<u>2,724</u>	<u>1,049</u>	<u>22,399</u>
Gross profit	<u>12,172</u>	<u>1,062</u>	<u>200</u>	<u>13,434</u>
Depreciation	499	43	10	552
Amortisation	99	519	-	618
Share of losses of associates and joint ventures	<u>(68)</u>	<u>(8)</u>	<u>(234)</u>	<u>(310)</u>
	Unaudited Three months ended 31 March 2014			
	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>14,413</u>	<u>1,177</u>	<u>2,810</u>	<u>18,400</u>
Gross profit	<u>10,042</u>	<u>411</u>	<u>147</u>	<u>10,600</u>
Depreciation	454	38	10	502
Amortisation	45	182	-	227
Share of profit/(losses) of associates and joint ventures	<u>145</u>	<u>(45)</u>	<u>(56)</u>	<u>44</u>

3 Interests in associates

	Unaudited	Audited
	31 March	31 December
	2015	2014
	RMB'Million	RMB'Million
Investments in associates (a)		
- Listed shares	32,137	32,064
- Unlisted shares	<u>21,024</u>	<u>19,067</u>
	53,161	51,131
Investments in redeemable preference shares of associates (b)	<u>4,276</u>	<u>2,941</u>
	<u>57,437</u>	<u>54,072</u>

Note:

(a) Investments in associates

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB'Million	RMB'Million
At beginning of period	51,131	10,867
Additions(i) and (ii)	1,922	13,466
Deemed disposal gains	529	—
Share of (losses)/profits of associates	(312)	45
Share of other comprehensive income of associates	70	8
Disposal of associates	(269)	(192)
Impairment provision (iii)	(75)	(407)
Dividends from associates	(15)	—
Currency translation differences	<u>180</u>	<u>—</u>
At end of period	<u>53,161</u>	<u>23,787</u>

- (i) In March 2015, the Group invested in a company engaged in mobile entertainment industry at a total consideration of USD60 million (equivalent to approximately RMB369 million). After the completion of this investment, the Group held approximately 26.15% of its total outstanding issued share capital.

- (ii) The Group also acquired several other associates or made additional investments in existing associates for an aggregate consideration of RMB1,553 million during the three months ended 31 March 2015. These associates are principally engaged in O2O life style information business and other businesses.
- (iii) During the three months ended 31 March 2015, the Group made an impairment provision of RMB75 million (for three months ended 31 March 2014: RMB407 million) against the carrying amounts of investments in certain associates based on the results of assessment performed with reference to their business performance and recoverable values of these associates.

(b) Investments in redeemable preference shares of associates

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

In January 2015, the Group, entered into a series of agreements with a third party company, primarily engaged in the online automotive financing platform business, to subscribe for convertible redeemable preference shares, representing 26.60% of its total equity capital on a fully-diluted basis, at a cash consideration of USD150 million (approximately RMB921 million).

During the three months ended 31 March 2015, no impairment provision was made (for three months ended 31 March 2014: RMB225 million) for investments in redeemable preference shares.

4 Available-for-sale financial assets

	Unaudited	Audited
	31 March	31 December
	2015	2014
	RMB'Million	RMB'Million
Available-for-sale financial assets		
- Listed equity interests ((a) and (b))	5,594	3,631
- Unlisted equity interests	<u>11,577</u>	<u>9,646</u>
	<u>17,171</u>	<u>13,277</u>

Movement in the unlisted equity interests is analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB'Million	RMB'Million
At beginning of period	9,646	6,270
Additions (c)	808	892
Transfer to investments in associates	—	(50)
Changes in fair value	1,106	197
Impairment provision	—	(79)
Disposal of available-for-sale financial assets	(18)	—
Currency translation differences	35	—
	<u>11,577</u>	<u>7,230</u>
At end of period	<u>11,577</u>	<u>7,230</u>

Note:

- (a) The gains from changes in fair value recognised for the listed interests during the three months ended 31 March 2015 were RMB754 million (for three months ended 31 March 2014: losses from changes in fair value were RMB360 million).
- (b) In January 2015, the Group, entered into a series of agreements with a third party company, which is a company listed on the New York Stock Exchange which engages in Internet content and marketing services of the automobile industry in China, to subscribe for 3.3% of its outstanding shares, on a fully-diluted basis, at a cash consideration of USD150 million (approximately RMB921 million).
- (c) The Group acquired certain available-for-sale financial assets or made additional investments in certain existing available-for-sale financial assets at an aggregate consideration of RMB808 million during the three months ended 31 March 2015. They are principally engaged in the O2O business and other Internet-related businesses.

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited	Audited
	31 March	31 December
	2015	2014
	RMB'Million	RMB'Million
0 - 30 days	2,587	2,032
31 - 60 days	1,729	1,464
61 - 90 days	629	667
Over 90 days	<u>250</u>	<u>425</u>
	<u>5,195</u>	<u>4,588</u>

Receivable balances as at 31 March 2015 and 31 December 2014 mainly represented amounts due from telecommunications operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, other third party online/mobile apps platform providers, as well as brand display advertising customers mainly located in the PRC.

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

6 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

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

(ii) Post-IPO Option Scheme I

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

(iii) Post-IPO Option Scheme II

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

(iv) Post-IPO Option Scheme III

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

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

	Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2015 (2)	–	–	HKD57.36	36,432,000	HKD31.70	5,000,000	41,432,000
Granted (2)	–	–	–	–	–	–	–
Exercised (2)	–	–	HKD12.75	(4,005,890)	–	–	(4,005,890)
Lapsed (2)	–	–	HKD25.14	(212,500)	–	–	(212,500)
At 31 March 2015 (2)	–	–	HKD63.12	<u>32,213,610</u>	HKD31.70	<u>5,000,000</u>	<u>37,213,610</u>
Exercisable as at							
31 March 2015 (2)	–	–	HKD42.51	<u>11,687,512</u>	HKD31.70	<u>1,250,000</u>	<u>12,937,512</u>
At 1 January 2014 (1)	HKD11.25	819,266	HKD75.69	12,648,005	HKD158.50	1,000,000	14,467,271
Granted (1)	–	–	HKD572.60	2,307,500	–	–	2,307,500
Exercised (1)	HKD11.25	(819,224)	HKD52.03	(1,369,356)	–	–	(2,188,580)
Lapsed (1)	HKD14.53	(42)	HKD116.38	(600,000)	–	–	(600,042)
At 31 March 2014 (1)	–	–	HKD164.60	<u>12,986,149</u>	HKD158.50	<u>1,000,000</u>	<u>13,986,149</u>
Exercisable as at							
31 March 2014 (1)	–	–	HKD55.82	<u>6,698,999</u>	–	–	<u>6,698,999</u>

Note:

- (1) The numbers of shares and average exercise price were presented as before the effect of the Share Subdivision.
- (2) The numbers of shares and average exercise price were presented as after the effect of the Share Subdivision.

During the three months ended 31 March 2015, no share option was granted to any director of the Company (for the three months ended 31 March 2014: 1,000,000 share options were granted to an executive director of the Company before the effect of the Share Subdivision).

(b) Share award schemes

The Company has adopted the Share Award Schemes, both of which are administered by an independent trustee appointed by the Group. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the three months ended 31 March 2015 and 2014 are as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2015 (ii)	6,650,532	82,035,522	88,686,054
Purchased and withheld (ii)	591,738	—	591,738
Granted (ii)	(328,790)	328,790	—
Lapsed (ii)	1,327,215	(1,327,215)	—
Vested and transferred (ii)	<u>—</u>	<u>(2,532,241)</u>	<u>(2,532,241)</u>
At 31 March 2015 (ii)	<u>8,240,695</u>	<u>78,504,856</u>	<u>86,745,551</u>
Vested but not transferred as at 31 March 2015 (ii)			<u>—</u>
At 1 January 2014 (i)	1,435,659	18,065,996	19,501,655
Purchased and withheld (i)	31,583	—	31,583
Granted (i)	(1,156,845)	1,156,845	—
Lapsed (i)	351,452	(351,452)	—
Vested and transferred (i)	<u>—</u>	<u>(180,597)</u>	<u>(180,597)</u>
At 31 March 2014 (i)	<u>661,849</u>	<u>18,690,792</u>	<u>19,352,641</u>
Vested but not transferred as at 31 March 2014 (i)			<u>2,050</u>

Note:

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

During the three months ended 31 March 2015, no awarded share was granted to any director of the Company (for the three months ended 31 March 2014: 25,000 awarded shares were granted to three independent non-executive directors of the Company).

7 Borrowings

	Unaudited	Audited
	31 March	31 December
	2015	2014
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
- Unsecured (a)	<u>5,835</u>	<u>5,507</u>
Included in current liabilities:		
RMB bank borrowings		
- Unsecured	125	125
USD bank borrowings		
- Unsecured (b)	2,150	1,836
Current portion of long-term USD bank borrowings		
- Unsecured (a)	<u>1,259</u>	<u>1,254</u>
	<u>3,534</u>	<u>3,215</u>
	<u>9,369</u>	<u>8,722</u>

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD1,155 million (31 December 2014: USD1,105 million). Applicable interest rates are at LIBOR plus 1.35% to 1.75% (31 December 2014: LIBOR plus 1.35% to 1.75%) per annum.
- (b) The aggregate principal amount of short-term USD bank borrowings was USD350 million (31 December 2014: USD300 million). Applicable interest rates are at LIBOR plus 0.85% to 1.00% or at an interest rate of 1.125% (31 December 2014: LIBOR plus 0.85% to 1.00%) per annum.

8 Notes payable

	Unaudited	Audited
	31 March	31 December
	2015	2014
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	34,795	22,511
Non-current portion of long-term HKD notes payable	<u>2,527</u>	<u>2,517</u>
	<u>37,322</u>	<u>25,028</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	<u>1,841</u>	<u>1,834</u>
	<u>39,163</u>	<u>26,862</u>

Note:

The aggregate principal amount of USD notes payable and HKD notes payable were USD6,000 million (31 December 2014: USD4,000 million) and HKD3,200 million (31 December 2014: HKD3,200 million), respectively. The interest rate range of the notes payable is from 1.860% to 4.625% (31 December 2014: 1.860% to 4.625%) per annum.

On 5 February 2015, the Company issued two tranches of senior notes under the Programme with an aggregate principal amount of USD2 billion, comprising of USD1.1 billion senior notes due 2020 (the “2015 Notes I”) and USD900 million notes due 2025 (the “2015 Notes II”). Net proceeds from the issue of these two tranches of senior notes amounted to approximately USD1.987 billion (equivalent to approximately RMB12.194 billion) after deduction of underwriting fees, discounts and commissions but before other expenses payable in connection with the issuance. Both of the 2015 Notes I and 2015 Notes II are listed on the Stock Exchange.

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

9 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 31 March 2015 RMB'Million	Audited 31 December 2014 RMB'Million
0 - 30 days	6,533	5,775
31 - 60 days	1,384	936
61 - 90 days	796	618
Over 90 days	<u>1,348</u>	<u>1,354</u>
	<u>10,061</u>	<u>8,683</u>

10 Other gains, net

	Unaudited Three months ended 31 March 2015 RMB'Million	2014 RMB'Million
Gains on disposals/deemed disposals of investees and business	839	2,717
Impairment provision for investee companies and intangible assets from acquisition	(223)	(820)
Dividend income	41	5
Subsidies and tax rebates	9	7
Donation to Tencent Charity Funds	(250)	(150)
Others	<u>(5)</u>	<u>(152)</u>
	<u>411</u>	<u>1,607</u>

11 Expenses by nature

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB'Million	RMB'Million
Employee benefits expenses (a)	4,058	3,244
Content costs and agency fees	3,673	2,201
Cost of merchandise sold	159	2,352
Bandwidth and server custody fees	1,176	977
Channel costs	989	371
Promotion and advertising expenses	864	1,305
Depreciation of fixed assets (a)	780	704
Amortisation of intangible assets (b)	723	275
Operating lease rentals in respect of office buildings	213	256
Travelling and entertainment expenses	139	96

Note:

- (a) Research and development expenses for the three months ended 31 March 2015 were RMB2,027 million (for the three months ended 31 March 2014: RMB1,512 million), which included employee benefit expenses of RMB1,645 million (for the three months ended 31 March 2014: RMB1,201 million) and depreciation of fixed assets of RMB171 million (for the three months ended 31 March 2014: RMB150 million). No development expenses had been capitalised for the three months ended 31 March 2015 and 2014.
- (b) Included the amortisation charge for intangible assets in respect of licenses and licensed online contents.

12 Income Tax expenses

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

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

The Group was not subject to any taxation in the Cayman Islands and British Virgin Islands for the three months ended 31 March 2015 and 2014.

(b) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three months ended 31 March 2015 and 2014.

(c) PRC corporate income tax

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the three months ended 31 March 2015 and 2014, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law promulgated by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate is 25% for domestic and foreign enterprise in 2015.

In 2014, 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 2014 to 2016 according to the applicable CIT Law. In 2014, one of these subsidiaries was approved as a national key software enterprise, and accordingly, its CIT rate for 2014 was reduced to the preferential rate of 10%. This subsidiary adopted CIT rate of 15% for the three months ended 31 March 2015.

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

(d) United States corporate income tax

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

(e) Corporate income tax in other countries

CIT provision has been provided for the three months ended 31 March 2015 and 2014 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35%.

(f) PRC withholding tax

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

The income tax expense of the Group for the three months ended 31 March 2015 and 2014 are analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB'Million	RMB'Million
Current tax	1,785	424
Deferred income tax	<u>(86)</u>	<u>740</u>
	<u>1,699</u>	<u>1,164</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three months ended 31 March 2015 and 2014, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
	RMB'Million	RMB'Million
Profit before income tax	8,629	7,596
Share of losses/(profits) of associates and joint ventures	<u>310</u>	<u>(44)</u>
	<u>8,939</u>	<u>7,552</u>
Tax calculated at a tax rate of 25%	2,235	1,888
Effects of different tax rates applicable to different subsidiaries of the Group	(870)	(1,653)
Effects of tax holiday on assessable profit of subsidiaries	(76)	(64)
Income not subject to tax	(6)	—
Expenses not deductible for tax purposes	175	250
Withholding tax on earnings expected to be remitted by PRC subsidiaries	—	450
Unrecognised deferred income tax assets	241	258
Others	<u>—</u>	<u>35</u>
Income tax expense	<u>1,699</u>	<u>1,164</u>

13 Earnings per share

(a) Basic

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

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
Profit attributable to equity holders of the Company (RMB' Million)	<u>6,883</u>	<u>6,457</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	<u>9,287</u>	<u>9,225</u>
Basic EPS (Note) (RMB per share)	<u>0.741</u>	<u>0.700</u>

Note:

Comparative figures have been restated on the assumption that the Share Subdivision had been effective since the commencement of prior corresponding period.

(b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three months ended 31 March 2015 and 2014, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited	
	Three months ended	
	31 March	
	2015	2014
Profit attributable to equity holders of the Company (RMB' Million)	<u>6,883</u>	<u>6,457</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	9,287	9,225
Adjustments for share options (Note) (million shares)	20	50
Adjustments for awarded shares (Note) (million shares)	<u>78</u>	<u>85</u>
Weighted average number of ordinary shares for the calculation of diluted EPS(Note) (million shares)	<u>9,385</u>	<u>9,360</u>
Diluted EPS (Note) (RMB per share)	<u>0.733</u>	<u>0.690</u>

Note:

Comparative figures have been restated on the assumption that the Share Subdivision had been effective since the commencement of prior corresponding period.

14 Dividends

A final dividend in respect of the year ended 31 December 2014 of HKD0.36 per share (2013: HKD1.20 per share before the effect of the Share Subdivision, or HKD0.24 per share after the effect of the Share Subdivision) was proposed pursuant to a resolution passed by the Board on 18 March 2015 and subject to the approval of the shareholders at the 2015 AGM. The Interim Financial Information does not reflect this dividend payable.

The Board did not propose any interim dividend for the three months ended 31 March 2015 and 2014.

15 Business combinations

In February 2015, the Group acquired approximately 81.47% equity interest, on an outstanding basis, in an Europe based online game company, at a cash consideration of USD177 million (approximately RMB1,085 million) (the “Acquisition”).

The goodwill and fair value of the acquired identifiable intangible assets was determined provisionally, pending the completion of valuation performed on the assets acquired.

The Acquisition related costs were not significant and have been charged to general and administrative expenses in the consolidated income statement for the three months ended 31 March 2015.

The revenue and the results contributed by the Acquisition to the Group for the period since the date of acquisition were insignificant to the Group.

The Group’s revenue and results for the period would not be materially different if the Acquisition had occurred on 1 January 2015.

16 Subsequent events

(a) Additional investment in 58.com

In April 2015, the Group signed a share purchase agreement with 58.com, an existing associate, to purchase certain of its newly issued shares at USD52 per ADS, equal to an aggregate consideration of approximately USD400 million (equivalent to approximately RMB2,457 million). Following the completion of this additional investment, the Group held in aggregate approximately 25.1% of the total issued and outstanding shares of 58.com on a fully-diluted basis; 58.com continues to be accounted for as an associate of the Group.

(b) Increase of the limit of the Global Medium Term Note Programme (the “Programme”)

In April 2015, the Company has updated the Programme and increased the limit on the aggregate principal amount of the Programme from USD5 billion to USD10 billion.

OTHER INFORMATION

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2015.

Employee and Remuneration Policies

As at 31 March 2015, the Group had 27,948 employees (31 March 2014: 26,941). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the three months ended 31 March 2015 was RMB4,058 million (for the three months ended 31 March 2014: RMB3,244 million).

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three months ended 31 March 2015.

Compliance with the Corporate Governance Code

Save as disclosed in the 2014 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the CG Code during the period from 1 January 2015 to 31 March 2015.

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

APPRECIATION

On behalf of the Board, I would like to thank our shareholders and stakeholders for their full and continued confidence and support. I also wish to extend my appreciation to our committed staff at every level and management team for their contributions in delivering the remarkable success. Looking ahead, we will continue to build a prosperous Internet ecosystem to enhance our users' lives, both online and offline.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 13 May 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.

DEFINITION

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

Term	Definition
“2015 AGM”	the annual general meeting of the Company to be held on 13 May 2015
“58.com”	58.com Inc., a company incorporated under the laws of the Cayman Islands whose ADSs are listed on the New York Stock Exchange
“ADS”	American Depositary Share
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
“China Mobile”	China Mobile Communications Corporation
“China Telecom”	China Telecommunications Corporation
“China Unicom”	China United Network Communications Group Company Limited
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles

“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“JD.com”	JD.com, Inc., a limited liability company incorporated under the laws of the Cayman Islands whose ADSs are listed on NASDAQ
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“NASDAQ”	NASDAQ Global Select Market
“NBA”	the National Basketball Association
“O2O”	online-to-offline, or offline-to-online
“PC”	personal computer
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China

“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“RMB”	the lawful currency of the PRC
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013
“Share Subdivision”	with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and the Stock Exchange granting the listing of, and permission to deal in, the subdivided shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Funds”	charity funds established by the Group
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services