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

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016**

The Board is pleased to announce the unaudited consolidated results of the Group for the three and nine months ended 30 September 2016. These interim results have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	30 September 2016	30 September 2015	Unaudited Three months ended Year- on-year change	30 June 2016	Quarter- on-quarter change
	(RMB in millions, unless specified)				
Revenues	40,388	26,594	52%	35,691	13%
Gross profit	21,828	15,580	40%	20,456	7%
Operating profit	14,460	10,331	40%	14,329	1%
Profit for the period	10,776	7,584	42%	10,880	-1%
Profit attributable to equity holders of the Company	10,646	7,445	43%	10,737	-1%
Non-GAAP profit attributable to equity holders of the Company	11,737	8,280	42%	11,319	4%
EPS (RMB per share)					
- basic	1.134	0.800	42%	1.146	-1%
- diluted	1.121	0.792	42%	1.133	-1%
Non-GAAP EPS (RMB per share)					
- basic	1.251	0.890	41%	1.208	4%
- diluted	1.236	0.881	40%	1.194	4%

	Unaudited		
	Nine months ended		
	30 September	30 September	Year-
	2016	2015	on-year
	(RMB in millions, unless specified)		
			change
Revenues	108,074	72,422	49%
Gross profit	60,873	43,452	40%
Operating profit	42,187	29,739	42%
Profit for the period	30,924	21,910	41%
Profit attributable to equity holders of the Company	30,566	21,642	41%
Non-GAAP profit attributable to equity holders of the Company	33,088	23,457	41%
EPS (RMB per share)			
- basic	3.263	2.328	40%
- diluted	3.222	2.298	40%
Non-GAAP EPS (RMB per share)			
- basic	3.532	2.524	40%
- diluted	3.488	2.490	40%

BUSINESS REVIEW AND OUTLOOK

Company Strategic Highlights

In the third quarter of 2016, we continued to execute our “Connection” strategy by strengthening our social platforms and leveraging our social traffic to grow our key business models.

- *Online games:* For smart phone games, we sought to expand our game portfolio, particularly into both high-user game types such as board games and player versus player games, and high-revenue game types such as role playing games. For PC games, given the increased popularity of player versus player titles in which users alternate high-engagement competitive sessions with low-intensity practice and review sessions, we are shifting our engagement focus away from maximising user time spent in-game and toward broadening overall user engagement via game-related activities such as eSports, game video streams, and game interest tribes. Partially reflecting this shift, our PC game revenue increased despite our PC game average concurrent user metrics (which quantify time spent inside game client software) declining. We believe this broader engagement model will result in healthier and more sustainable gamer relationships with key titles.
- *Advertising:* For social and performance advertising, we added more interactive advertising formats to drive user engagement; sharpened advertiser tools to provide better advertising performance measurement and to deliver deeper data insight; and improved our targeting technology to enable regional and long-tail advertisers to enhance click-through rates and results.
- *Digital content:* We integrated the management teams of QQ Music and CMC, in order to improve the digital music industry’s structure and sustainability. We invested aggressively in content for our video platform, where we saw substantial growth in subscriptions. Due partly to a healthier copyright control environment, more users paid for content on our digital literature platform.
- *Payment related services:* We made significant progress in driving merchant adoption and usage. Our Weixin Pay promotion “Cash-Free Day” on 8 August 2016 was well received by merchants and users, with almost 700,000 merchants participating, up over seven times year-on-year. We introduced a *Weixin Checkout* feature that allows merchants to speed up adoption of Weixin Pay by simplifying the onboarding procedures and minimising payment integration work.

- *Cloud services:* We strengthened our cloud services technical capabilities, enhanced industry-specific solutions, and supported our customers in fulfilling their “Internet-Plus” related initiatives. Our cloud services revenue more than tripled year-on-year as the number of enterprise accounts and usage by key accounts increased, particularly in sectors such as online games, online video and O2O services.

Our improving security capabilities escorted our “Connection” strategy by safeguarding our users, extending protection shields to our business partners, and providing a secure environment for our key business engines:

- *For users:* Our security applications provide robust protection to user accounts, passwords, personal information and virtual property, and boost performance of PC and mobile devices. We provide users with a safe environment for payment transactions and wealth management products. We protect users from fraudulent and harassing incoming calls or messages by maintaining a comprehensive and dynamic anti-fraudulent phone number library.
- *For partners:* Our security scanning service is widely adopted by most smart phone manufacturers in China through pre-installation of our security applications or integration of our security modules. Our Android application store helps developers strengthen their application packages against potential hijacking and counterfeiting threats. Tencent Cloud provides a rich portfolio of security functionalities to safeguard the IT systems of our enterprise clients.

During 2016, we strengthened our mobile security leadership in areas such as virus scanning, phony base-station detection, anti-fraudulent phone number library, phone memory optimisation, and speed boosting. QuestMobile and TalkingData, two well-regarded industry monitoring organisations, ranked our mobile security application first in the China mobile security industry in terms of monthly active users.

Company Divisional and Product Highlights

Operating Information

	As at 30 September 2016	As at 30 September 2015	Year- on-year change	As at 30 June 2016	Quarter- on-quarter change
	(in millions, unless specified)				
MAU of QQ	876.7	859.7	2.0%	899.0	-2.5%
Smart device MAU of QQ	647.2	639.1	1.3%	666.5	-2.9%
PCU of QQ (for the quarter)	250.0	239.1	4.6%	246.9	1.3%
Combined MAU of Weixin and WeChat	846.1	649.5	30.3%	805.7	5.0%
MAU of Qzone	631.9	653.1	-3.2%	651.5	-3.0%
Smart device MAU of Qzone	583.6	576.8	1.2%	595.8	-2.0%
Fee-based VAS registered subscriptions	105.0	88.5	18.6%	105.1	-0.1%

Key Platforms

- For QQ, smart device MAU increased by 1% year-on-year to 647 million. User activity benefited from new features such as *cmShow*, a mobile QQ product that provides users with animated personal avatars, with which users can interact with friends inside chat or collect items from friends to unlock new features. During the Rio Olympic Games, we attracted over 100 million QQ users to participate in the virtual torch relay campaign by building augmented reality into the phone-to-phone interactions.
- For Qzone, smart device MAU increased by 1% year-on-year to 584 million. User activity benefited from upgraded functionalities such as an immersive display that enables users to streamline autoplay videos and discover more personalised recommendations.
- For Weixin and WeChat together, MAU reached 846 million, representing year-on-year growth of 30%. We are beta-testing “mini programs” in Weixin that will provide native app-like experiences without leaving the Weixin interface, enhancing user convenience for low frequency interactions, freeing up memory space on smart phones, and enabling convenient social sharing.

Value-added Services

In the third quarter of 2016, our social networks business sustained strong revenue growth as we generated more game-related virtual item sales and digital content sales.

- For PC client games, we generated 10% year-on-year revenue growth, with increased contributions from existing titles in genres such as MOBA, action, RPG, music, and sports. ARPU in key titles increased as new content and seasonal promotions were well received by our core users.
- For smart phone games, we achieved approximately RMB9.9 billion revenue¹ in the third quarter of 2016, representing 87% year-on-year revenue growth, mainly driven by portfolio expansion and strong operating performance of our major PvP and RPG titles. At the end of September 2016, *Honour of Kings* surpassed 40 million daily active users, a new record among non-casual smart phone games on our platforms.
- For digital content services, we sustained healthy growth as users became increasingly willing to pay for digital content, and as we escalated efforts in combatting piracy.

Online Advertising

During the third quarter of 2016, our advertising business delivered robust expansion, with Weixin and mobile news app being the key contributors to year-on-year growth.

Our initiatives featuring the Rio Olympic Games attracted about 700 million unique visitors across our news and video platforms, reinforcing our position as the online sports media leader by traffic and revenue. Neighbourhood LBS advertising in Weixin Moments is gaining popularity among local advertisers from industries such as real estate, wedding services, and auto dealerships. During the quarter, we introduced Weixin Moments canvas, a full-screen and instantaneous loading advertisement format that enables creative storytelling with flexible combinations of images and videos.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2016 Compared to Third Quarter of 2015

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

	Unaudited	
	Three months ended	
	30 September	30 September
	2016	2015
	(RMB in millions)	
Revenues	40,388	26,594
Cost of revenues	<u>(18,560)</u>	<u>(11,014)</u>
Gross profit	21,828	15,580
Interest income	637	559
Other gains, net	1,155	614
Selling and marketing expenses	(3,277)	(2,042)
General and administrative expenses	<u>(5,883)</u>	<u>(4,380)</u>
Operating profit	14,460	10,331
Finance costs, net	(604)	(481)
Share of losses of associates and joint ventures	<u>(619)</u>	<u>(702)</u>
Profit before income tax	13,237	9,148
Income tax expense	<u>(2,461)</u>	<u>(1,564)</u>
Profit for the period	<u>10,776</u>	<u>7,584</u>
Attributable to:		
Equity holders of the Company	10,646	7,445
Non-controlling interests	<u>130</u>	<u>139</u>
	<u>10,776</u>	<u>7,584</u>
Non-GAAP profit attributable to equity holders of the Company	<u>11,737</u>	<u>8,280</u>

Revenues. Revenues increased by 52% to RMB40,388 million for the third quarter of 2016 on a year-on-year basis. The following table sets forth our revenues by line of business for the third quarter of 2016 and the third quarter of 2015:

	Unaudited			
	Three months ended			
	30 September 2016		30 September 2015	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	27,975	69%	20,547	77%
Online advertising	7,449	19%	4,938	19%
Others	4,964	12%	1,109	4%
Total revenues	<u>40,388</u>	<u>100%</u>	<u>26,594</u>	<u>100%</u>

- Revenues from our VAS business increased by 36% to RMB27,975 million for the third quarter of 2016 on a year-on-year basis. Online games revenues increased by 27% to RMB18,166 million. The increase primarily reflected contributions from our major PvP and RPG genre smart phone games, as well as revenue growth from our major PC titles. Social networks revenues grew by 58% to RMB9,809 million. The increase was mainly driven by higher revenues from digital content subscription services and from virtual item sales.
- Revenues from our online advertising business increased by 51% to RMB7,449 million for the third quarter of 2016 on a year-on-year basis. Performance-based advertising revenues increased by 83% to RMB4,368 million, primarily due to higher contributions from advertising revenues derived from Weixin Moments, our mobile news app, and Weixin Official Accounts. Brand display advertising revenues grew by 21% to RMB3,081 million, mainly reflecting growth in revenues from our mobile platforms such as Tencent News, and the positive impact of the Rio Olympic Games, partly offset by our re-allocating some news feed inventory from brand to performance formats.
- Revenues from our others businesses increased by 348% to RMB4,964 million for the third quarter of 2016 on a year-on-year basis. The increase primarily reflected revenue growth from our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 69% to RMB18,560 million for the third quarter of 2016 on a year-on-year basis. The increase was primarily driven by greater sharing and content costs, costs of payment related services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 46% for the third quarter of 2016 from 41% for the third quarter of 2015, due partly to business mix changes. The following table sets forth our cost of revenues by line of business for the third quarter of 2016 and the third quarter of 2015:

	Unaudited			
	Three months ended			
	30 September 2016		30 September 2015	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	9,748	35%	7,364	36%
Online advertising	4,748	64%	2,524	51%
Others	<u>4,064</u>	82%	<u>1,126</u>	102%
Total cost of revenues	<u>18,560</u>		<u>11,014</u>	

- Cost of revenues for our VAS business increased by 32% to RMB9,748 million for the third quarter of 2016 on a year-on-year basis. The increase primarily reflected greater sharing and content costs, as well as channel costs.
- Cost of revenues for our online advertising business increased by 88% to RMB4,748 million for the third quarter of 2016 on a year-on-year basis. The increase was mainly due to greater investment in, and amortisation of, video content.
- Cost of revenues for our others businesses increased by 261% to RMB4,064 million for the third quarter of 2016 on a year-on-year basis. The increase primarily reflected greater costs in payment related and cloud services as their business activities grew.

Other gains, net. We recorded net other gains, totalling RMB1,155 million for the third quarter of 2016, which mainly consisted of net disposal and deemed disposal gains arising from certain investee companies, partly offset by impairment provision charges for certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 60% to RMB3,277 million for the third quarter of 2016 on a year-on-year basis. The increase primarily reflected higher marketing and promotional expenses as our business scale grew. As a percentage of revenues, selling and marketing expenses were 8% for the third quarter of 2016, broadly stable compared to the third quarter of 2015.

General and administrative expenses. General and administrative expenses increased by 34% to RMB5,883 million for the third quarter of 2016 on a year-on-year basis. The increase mainly reflected greater research and development expenses, as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 15% for the third quarter of 2016 from 16% for the third quarter of 2015.

Finance costs, net. Finance costs, net increased by 26% to RMB604 million for the third quarter of 2016 on a year-on-year basis, primarily driven by greater amount of indebtedness.

Income tax expense. Income tax expense increased by 57% to RMB2,461 million for the third quarter of 2016 on a year-on-year basis. The increase mainly reflected greater profit before income tax and withholding taxes.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 43% to RMB10,646 million for the third quarter of 2016 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 42% to RMB11,737 million.

Third Quarter of 2016 Compared to Second Quarter of 2016

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

	Unaudited	
	Three months ended	
	30 September	30 June
	2016	2016
	(RMB in millions)	
Revenues	40,388	35,691
Cost of revenues	<u>(18,560)</u>	<u>(15,235)</u>
Gross profit	21,828	20,456
Interest income	637	626
Other gains, net	1,155	911
Selling and marketing expenses	(3,277)	(2,365)
General and administrative expenses	<u>(5,883)</u>	<u>(5,299)</u>
Operating profit	14,460	14,329
Finance costs, net	(604)	(377)
Share of losses of associates and joint ventures	<u>(619)</u>	<u>(292)</u>
Profit before income tax	13,237	13,660
Income tax expense	<u>(2,461)</u>	<u>(2,780)</u>
Profit for the period	<u>10,776</u>	<u>10,880</u>
Attributable to:		
Equity holders of the Company	10,646	10,737
Non-controlling interests	<u>130</u>	<u>143</u>
	<u>10,776</u>	<u>10,880</u>
Non-GAAP profit attributable to equity holders of the Company	<u>11,737</u>	<u>11,319</u>

Revenues. Revenues increased by 13% to RMB40,388 million for the third quarter of 2016 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 9% to RMB27,975 million for the third quarter of 2016. Online games revenues increased by 6% to RMB18,166 million. The increase was mainly driven by positive seasonality for PC online games, and by continued contributions from our new smart phone games. Social networks revenues increased by 15% to RMB9,809 million. The increase primarily reflected revenue growth from digital content subscription services, and to a lesser extent from virtual item sales. Revenues from integration of our expanded digital music businesses also contributed to the sequential increase in social networks revenues.
- Revenues from our online advertising business increased by 14% to RMB7,449 million for the third quarter of 2016. Performance-based advertising revenues grew by 18% to RMB4,368 million, mainly reflecting higher advertising revenues from Weixin Moments and our mobile news app. Brand display advertising revenues increased by 9% to RMB3,081 million, primarily driven by higher contributions from our mobile platforms such as Tencent News, and the positive impact of the Rio Olympic Games.

Cost of revenues. Cost of revenues increased by 22% to RMB18,560 million for the third quarter of 2016 on a quarter-on-quarter basis. The increase mainly reflected greater sharing and content costs, as well as costs of payment related services. As a percentage of revenues, cost of revenues increased to 46% for the third quarter of 2016 from 43% for the second quarter of 2016, due partly to business mix changes.

- Cost of revenues for our VAS business increased by 14% to RMB9,748 million for the third quarter of 2016. The increase was mainly driven by higher sharing and content costs.
- Cost of revenues for our online advertising business increased by 33% to RMB4,748 million for the third quarter of 2016. The increase was primarily due to greater investment in video content and commission expenses.

Selling and marketing expenses. Selling and marketing expenses increased by 39% to RMB3,277 million for the third quarter of 2016 on a quarter-on-quarter basis. The increase was primarily driven by greater marketing spending on our mobile apps, and seasonal promotional activities launched during the summer holiday.

General and administrative expenses. General and administrative expenses increased by 11% to RMB5,883 million for the third quarter of 2016 on a quarter-on-quarter basis. The increase mainly reflected greater research and development expenses.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased slightly by 1% to RMB10,646 million for the third quarter of 2016 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 4% to RMB11,737 million.

Other Financial Information

	Unaudited			Unaudited	
	Three months ended		Nine months ended		
	30 September	30 June	30 September	30 September	30 September
	2016	2016	2015	2016	2015
	(RMB in millions, unless specified)				
EBITDA (a)	15,865	15,581	10,806	45,775	31,009
Adjusted EBITDA (a)	16,963	16,401	11,569	48,368	32,974
Adjusted EBITDA margin (b)	42%	46%	44%	45%	46%
Interest expense	585	494	373	1,556	1,101
Net cash (c)	8,368	24,037	21,239	8,368	21,239
Capital expenditures (d)	3,651	1,505	1,653	9,261	5,826

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 online game and other content licenses).

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

	Unaudited			Unaudited	
	Three months ended			Nine months ended	
	30 September	30 June	30 September	30 September	30 September
	2016	2016	2015	2016	2015
(RMB in millions, unless specified)					
Operating profit	14,460	14,329	10,331	42,187	29,739
Adjustments:					
Interest income	(637)	(626)	(559)	(1,966)	(1,678)
Other (gains)/losses, net	(1,155)	(911)	(614)	(2,572)	(1,637)
Depreciation of fixed assets and investment properties	933	907	781	2,709	2,333
Amortisation of intangible assets	2,264	1,882	867	5,417	2,252
EBITDA	15,865	15,581	10,806	45,775	31,009
Equity-settled share-based compensation	1,098	820	763	2,593	1,965
Adjusted EBITDA	16,963	16,401	11,569	48,368	32,974

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the third quarter of 2016 and 2015, the second quarter of 2016, and the first nine months of 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 30 September 2016							
	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
		(a)	(b)	(c)	(d)		
Operating profit	14,460	1,098	34	(2,404)	139	1,710	15,037
Profit for the period	10,776	1,259	34	(2,309)	426	1,743	11,929
Profit attributable to equity holders	10,646	1,224	33	(2,297)	389	1,742	11,737
EPS (RMB per share)							
- basic	1.134						1.251
- diluted	1.121						1.236
Operating margin	36%						37%
Net margin	27%						30%

Unaudited three months ended 30 June 2016							
	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
		(a)	(b)	(c)	(d)		
Operating profit	14,329	820	42	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,014	42	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	995	42	(3,247)	317	2,475	11,319
EPS (RMB per share)							
- basic	1.146						1.208
- diluted	1.133						1.194
Operating margin	40%						41%
Net margin	30%						32%

Unaudited three months ended 30 September 2015

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

Unaudited nine months ended 30 September 2016

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net	Amortisation of intangible assets	Impairment provision	
				(gains)/losses from investee companies			
		(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)							
Operating profit	42,187	2,593	108	(6,122)	235	4,207	43,208
Profit for the period	30,924	3,139	108	(6,346)	1,110	4,624	33,559
Profit attributable to equity holders	30,566	3,076	107	(6,330)	1,054	4,615	33,088
EPS (RMB per share)							
- basic	3.263						3.532
- diluted	3.222						3.488
Operating margin	39%						40%
Net margin	29%						31%

Unaudited nine months ended 30 September 2015

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)						
Operating profit	29,739	1,965	67	(3,346)	152	1,654	30,231
Profit for the period	21,910	2,345	68	(3,021)	873	1,660	23,835
Profit attributable to equity holders	21,642	2,282	65	(3,021)	845	1,644	23,457
EPS (RMB per share)							
- basic	2.328						2.524
- diluted	2.298						2.490
Operating margin	41%						42%
Net margin	30%						33%

Note:

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

Liquidity and Financial Resources

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

	Unaudited 30 September 2016	Unaudited 30 June 2016
	(RMB in millions)	
Cash and cash equivalents	52,417	64,206
Term deposits	<u>47,919</u>	<u>44,808</u>
	100,336	109,014
Borrowings	(49,790)	(43,110)
Notes payable	<u>(42,178)</u>	<u>(41,867)</u>
Net cash	<u><u>8,368</u></u>	<u><u>24,037</u></u>

As at 30 September 2016, the Group had net cash of RMB8,368 million, representing a 65% decline quarter-on-quarter, mainly due to the prepayment of approximately USD3.7 billion for investment in Supercell, of which approximately USD1.2 billion has been recouped in October 2016, partly offset by free cash flow generation. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB94 billion as at 30 September 2016.

As at 30 September 2016, RMB24,762 million of our financial resources (cash and cash equivalents and term deposits) were denominated in non-RMB currencies.

For the third quarter of 2016, the Group had free cash flow of RMB14,121 million. This was a result of net cash flow generated from operating activities of RMB16,669 million, offset by payments for capital expenditure of RMB2,548 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

		Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
		27,975	20,547	78,619	57,601
		7,449	4,938	18,682	11,735
		4,964	1,109	10,773	3,086
		40,388	26,594	108,074	72,422
Cost of revenues	4	(18,560)	(11,014)	(47,201)	(28,970)
Gross profit		21,828	15,580	60,873	43,452
Interest income		637	559	1,966	1,678
Other gains, net	3	1,155	614	2,572	1,637
Selling and marketing expenses	4	(3,277)	(2,042)	(7,674)	(4,969)
General and administrative expenses	4	(5,883)	(4,380)	(15,550)	(12,059)
Operating profit		14,460	10,331	42,187	29,739
Finance costs, net		(604)	(481)	(1,472)	(1,255)
Share of losses of associates and joint ventures		(619)	(702)	(2,000)	(1,464)
Profit before income tax		13,237	9,148	38,715	27,020
Income tax expense	5	(2,461)	(1,564)	(7,791)	(5,110)
Profit for the period		10,776	7,584	30,924	21,910

		Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2016	2015	2016	2015
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Attributable to:					
	Equity holders of the Company	10,646	7,445	30,566	21,642
	Non-controlling interests	<u>130</u>	<u>139</u>	<u>358</u>	<u>268</u>
		<u>10,776</u>	<u>7,584</u>	<u>30,924</u>	<u>21,910</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
	- basic	6	<u>1.134</u>	<u>0.800</u>	<u>3.263</u>
	- diluted	6	<u>1.121</u>	<u>0.792</u>	<u>3.222</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016**

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	10,776	7,584	30,924	21,910
Other comprehensive income, net of tax:				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Share of other comprehensive income of associates	214	287	499	189
Net gains from changes in fair value of available-for-sale financial assets	1,042	1,298	4,368	7,867
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	79	(10)
Currency translation differences	688	1,303	1,782	1,123
Other fair value gains/(losses)	149	–	(172)	–
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Other fair value gains/(losses)	225	–	(103)	–
	2,318	2,888	6,453	9,169
Total comprehensive income for the period	13,094	10,472	37,377	31,079
Attributable to:				
Equity holders of the Company	12,953	10,316	36,989	30,808
Non-controlling interests	141	156	388	271
	13,094	10,472	37,377	31,079

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

		Unaudited 30 September 2016	Audited 31 December 2015
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Fixed assets		12,519	9,973
Construction in progress		4,449	4,248
Investment properties		685	292
Land use rights		5,201	2,293
Intangible assets		33,193	13,439
Investments in associates	8(a)	66,613	60,171
Investments in redeemable instruments of associates	8(b)	9,124	6,230
Investments in joint ventures		606	544
Available-for-sale financial assets	9	56,211	44,339
Prepayments, deposits and other assets		32,122	5,480
Deferred income tax assets		6,410	757
Term deposits		5,414	3,674
		<u>232,547</u>	<u>151,440</u>
Current assets			
Inventories		231	222
Accounts receivable	10	9,507	7,061
Prepayments, deposits and other assets		12,981	11,397
Other financial assets		1,765	1,198
Term deposits		42,505	37,331
Restricted cash	11	809	54,731
Cash and cash equivalents		52,417	43,438
		<u>120,215</u>	<u>155,378</u>
Total assets		<u>352,762</u>	<u>306,818</u>

		Unaudited	Audited
		30 September	31 December
		2016	2015
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		15,554	12,167
Shares held for share award schemes		(2,918)	(1,817)
Other reserves		24,307	9,673
Retained earnings		<u>126,855</u>	<u>100,012</u>
		163,798	120,035
Non-controlling interests		<u>10,151</u>	<u>2,065</u>
Total equity		<u>173,949</u>	<u>122,100</u>
LIABILITIES			
Non-current liabilities			
Borrowings	14	37,235	12,922
Notes payable	15	34,840	37,092
Long-term payables		3,737	3,626
Deferred income tax liabilities		4,406	3,668
Deferred revenue		<u>2,546</u>	<u>3,004</u>
		82,764	60,312
Current liabilities			
Accounts payable	13	23,900	15,700
Other payables and accruals	11	17,832	70,199
Borrowings	14	12,555	11,429
Notes payable	15	7,338	3,886
Current income tax liabilities		5,196	1,608
Other tax liabilities		110	462
Deferred revenue		<u>29,118</u>	<u>21,122</u>
		96,049	124,406
Total liabilities		<u>178,813</u>	<u>184,718</u>
Total equity and liabilities		<u>352,762</u>	<u>306,818</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

	Unaudited							
	Attributable to equity holders of the Company							
	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	Total equity RMB'Million
Balance at 1 January 2016	—	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100
Comprehensive income								
Profit for the period	—	—	—	—	30,566	30,566	358	30,924
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	—	—	—	499	—	499	—	499
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	4,368	—	4,368	—	4,368
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	79	—	79	—	79
- currency translation differences	—	—	—	1,752	—	1,752	30	1,782
- other fair value losses	—	—	—	(275)	—	(275)	—	(275)
Total comprehensive income for the period	—	—	—	6,423	30,566	36,989	388	37,377
Transactions with owners								
Capital injection	—	—	—	—	—	—	233	233
Employee share option schemes:								
- value of employee services	—	211	—	30	—	241	18	259
- proceeds from shares issued	—	155	—	—	—	155	—	155
Employee share award schemes:								
- value of employee services	—	2,009	—	282	—	2,291	45	2,336
- shares withheld for share award schemes	—	—	(1,608)	—	—	(1,608)	—	(1,608)
- vesting of awarded shares	—	(507)	507	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	811	—	811	—	811
Profit appropriations to statutory reserves	—	—	—	24	(24)	—	—	—
Dividends (Note 7)	—	—	—	—	(3,699)	(3,699)	(907)	(4,606)
Non-controlling interests arising from business combinations	—	—	—	—	—	—	7,392	7,392
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	1,519	—	(1,741)	—	(222)	180	(42)
Disposal of a subsidiary	—	—	—	—	—	—	(2)	(2)
Partial disposal of equity interests in subsidiaries and businesses	—	—	—	9,244	—	9,244	300	9,544
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(439)	—	(439)	439	—
Total transactions with owners recognised directly in equity for the period	—	3,387	(1,101)	8,211	(3,723)	6,774	7,698	14,472
Balance at 30 September 2016	—	15,554	(2,918)	24,307	126,855	163,798	10,151	173,949

Unaudited

	Attributable to equity holders of the Company							
	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	Total equity 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	—	—	—	—	21,642	21,642	268	21,910
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	—	—	—	189	—	189	—	189
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	7,867	—	7,867	—	7,867
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	(10)	—	(10)	—	(10)
- currency translation differences	—	—	—	1,120	—	1,120	3	1,123
Total comprehensive income for the period	—	—	—	9,166	21,642	30,808	271	31,079
Transactions with owners								
Capital injection	—	—	—	—	—	—	99	99
Employee share option schemes:								
- value of employee services	—	131	—	127	—	258	18	276
- proceeds from shares issued	—	135	—	—	—	135	—	135
Employee share award schemes:								
- value of employee services	—	1,456	—	194	—	1,650	45	1,695
- shares withheld for share award schemes	—	—	(601)	—	—	(601)	—	(601)
- vesting of awarded shares	—	(43)	43	—	—	—	—	—
Profit appropriations to statutory reserves	—	—	—	5	(5)	—	—	—
Dividends	—	—	—	—	(2,640)	(2,640)	(171)	(2,811)
Non-controlling interests arising from business combination	—	—	—	—	—	—	264	264
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	114	—	114	(132)	(18)
Disposal of subsidiaries	—	—	—	—	—	—	(44)	(44)
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(254)	—	(254)	254	—
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	—	1,679	(558)	(1,009)	(2,645)	(2,533)	333	(2,200)
Balance at 30 September 2015	—	6,810	(1,867)	10,286	93,059	108,288	2,715	111,003

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

	Unaudited	
	Nine months ended	
	30 September	
	2016	2015
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	45,518	27,240
Net cash flows used in investing activities	(56,169)	(37,034)
Net cash flows generated from financing activities	<u>18,552</u>	<u>13,580</u>
Net increase in cash and cash equivalents	7,901	3,786
Cash and cash equivalents at beginning of the period	43,438	42,713
Exchange gains on cash and cash equivalents	<u>1,078</u>	<u>215</u>
Cash and cash equivalents at end of the period	<u><u>52,417</u></u>	<u><u>46,714</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	26,847	18,061
Term deposits and highly liquid investments with initial terms within three months	<u>25,570</u>	<u>28,653</u>
	<u><u>52,417</u></u>	<u><u>46,714</u></u>

Note:

1 General information, basis of preparation and presentation

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

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

This condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 September 2016, the related consolidated income statement, the consolidated statement of comprehensive income for the three and nine months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2015, which have been prepared in accordance with IFRS, as set out in the 2015 annual report of the Company dated 17 March 2016 (the “2015 Financial Statements”).

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

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

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

2 Segment information

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

- VAS;
- Online advertising; and
- Others.

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

There were no material inter-segment sales during the three and nine months ended 30 September 2016 and 2015. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three and nine months ended 30 September 2016 and 2015 is as follows:

	Unaudited			
	Three months ended 30 September 2016			
	Online			Total
	VAS	advertising	Others	
	RMB' Million	RMB' Million	RMB' Million	RMB' Million
Segment revenues	<u>27,975</u>	<u>7,449</u>	<u>4,964</u>	<u>40,388</u>
Gross profit	<u>18,227</u>	<u>2,701</u>	<u>900</u>	<u>21,828</u>
Depreciation	473	50	128	651
Amortisation	928	1,181	–	2,109
Share of losses of associates and joint ventures	<u>(318)</u>	<u>(1)</u>	<u>(300)</u>	<u>(619)</u>
	Unaudited			
	Three months ended 30 September 2015			
	Online			Total
	VAS	advertising	Others	
	RMB' Million	RMB' Million	RMB' Million	RMB' Million
Segment revenues	<u>20,547</u>	<u>4,938</u>	<u>1,109</u>	<u>26,594</u>
Gross profit/(losses)	<u>13,183</u>	<u>2,414</u>	<u>(17)</u>	<u>15,580</u>
Depreciation	491	42	9	542
Amortisation	118	654	–	772
Share of (losses)/profits of associates and joint ventures	<u>(190)</u>	<u>67</u>	<u>(579)</u>	<u>(702)</u>

	Unaudited			
	Nine months ended 30 September 2016			
	Online			
	VAS	advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>78,619</u>	<u>18,682</u>	<u>10,773</u>	<u>108,074</u>
Gross profit	<u>51,731</u>	<u>7,710</u>	<u>1,432</u>	<u>60,873</u>
Depreciation	1,370	146	357	1,873
Amortisation	1,804	3,237	—	5,041
Share of losses of associates and joint ventures	<u>(653)</u>	<u>(5)</u>	<u>(1,342)</u>	<u>(2,000)</u>

	Unaudited			
	Nine months ended 30 September 2015			
	Online			
	VAS	advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>57,601</u>	<u>11,735</u>	<u>3,086</u>	<u>72,422</u>
Gross profit	<u>37,562</u>	<u>5,588</u>	<u>302</u>	<u>43,452</u>
Depreciation	1,481	127	28	1,636
Amortisation	333	1,619	—	1,952
Share of (losses)/profits of associates and joint ventures	<u>(318)</u>	<u>86</u>	<u>(1,232)</u>	<u>(1,464)</u>

3 Other gains, net

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Impairment provision for investee companies and intangible assets from acquisition	<u>(1,710)</u>	(379)	<u>(4,207)</u>	(1,654)
Gains on disposals/deemed disposals of investees	<u>2,404</u>	1,020	<u>5,464</u>	3,346
Fair value gains on other financial instruments	—	—	<u>658</u>	—
Subsidies and tax rebates	<u>27</u>	41	<u>313</u>	106
Dividend income	<u>341</u>	30	<u>392</u>	244
Donation to Tencent Charity Funds	—	—	<u>(350)</u>	(250)
Others	<u>93</u>	(98)	<u>302</u>	(155)
	<u>1,155</u>	<u>614</u>	<u>2,572</u>	<u>1,637</u>

4 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (a)	6,012	4,968	16,217	13,570
Content costs and agency fees (excluding amortisation of intangible assets)	6,580	4,599	16,800	11,854
Bandwidth and server custody fees	2,044	1,471	5,616	3,980
Channel costs	2,071	1,180	5,619	3,124
Promotion and advertising expenses	2,486	1,457	5,603	3,401
Amortisation of intangible assets (b)	2,264	867	5,417	2,252
Depreciation of fixed assets (a)	926	780	2,697	2,329
Operating lease rentals in respect of office buildings	295	226	813	662
Travelling and entertainment expenses	220	168	561	438

Note:

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses	2,434	1,975	6,410	5,263
Depreciation of fixed assets	204	177	609	523
Others	527	309	1,225	774
Research and development expenses	<u>3,165</u>	<u>2,461</u>	<u>8,244</u>	<u>6,560</u>

No significant development expenses had been capitalised for the three and nine months ended 30 September 2016 and 2015.

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

5 Income Tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and nine months ended 30 September 2016 and 2015.

(b) Hong Kong profits tax

Hong Kong profits tax provision was provided at the rate of 16.5% on the estimated assessable profits for the three and nine months ended 30 September 2016 and 2015.

(c) PRC corporate income tax

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

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

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

(d) Corporate income tax in other countries

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

(e) Withholding tax

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. Under the double taxation arrangement between the Mainland China and Hong Kong, the relevant withholding tax rate applicable to the Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

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

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current tax	3,241	1,531	8,503	5,201
Deferred income tax	(780)	33	(712)	(91)
	<u>2,461</u>	<u>1,564</u>	<u>7,791</u>	<u>5,110</u>

6 Earnings per share

(a) Basic

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
Profit attributable to equity holders of the Company (RMB'Million)	<u>10,646</u>	<u>7,445</u>	<u>30,566</u>	<u>21,642</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,384</u>	<u>9,307</u>	<u>9,368</u>	<u>9,295</u>
Basic EPS (RMB per share)	<u>1.134</u>	<u>0.800</u>	<u>3.263</u>	<u>2.328</u>

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates, and the convertible bonds of the subsidiaries should also have potential dilutive effect on the EPS. During the three and nine months ended 30 September 2016 and 2015, these share options and restricted shares and convertible bonds had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
Profit attributable to equity holders of the Company (RMB' Million)	<u>10,646</u>	<u>7,445</u>	<u>30,566</u>	<u>21,642</u>
Weighted average number of ordinary shares in issue (million shares)	9,384	9,307	9,368	9,295
Adjustments for share options and awarded shares (million shares)	<u>110</u>	<u>90</u>	<u>118</u>	<u>125</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,494</u>	<u>9,397</u>	<u>9,486</u>	<u>9,420</u>
Diluted EPS (RMB per share)	<u>1.121</u>	<u>0.792</u>	<u>3.222</u>	<u>2.298</u>

7 Dividends

A final dividend in respect of the year ended 31 December 2015 of HKD0.47 per share (2014: HKD0.36 per share) was proposed pursuant to a resolution passed by the Board on 17 March 2016 and approved by the shareholders of the Company at the 2016 AGM. Such dividend amounting to RMB3,699 million (final dividend for 2014: RMB2,640 million), was paid during the nine months ended 30 September 2016.

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

8 Interests in associates

	Unaudited	Audited
	30 September	31 December
	2016	2015
	RMB'Million	RMB'Million
Investments in associates (a)		
- Listed shares	37,115	36,040
- Unlisted shares	<u>29,498</u>	<u>24,131</u>
	66,613	60,171
Investments in redeemable instruments of associates (b)	<u>9,124</u>	<u>6,230</u>
	<u>75,737</u>	<u>66,401</u>

Note:

(a) Investments in associates

	Unaudited	
	Nine months ended	
	30 September	
	2016	2015
	RMB'Million	RMB'Million
At beginning of period	60,171	51,131
Additions (i)	8,669	8,522
Deemed disposal gains	2,068	1,910
Share of losses of associates	(2,015)	(1,471)
Share of other comprehensive income of associates	499	185
Dividends from associates	(149)	(233)
Disposals and transfers (ii)	(2,256)	(3,827)
Impairment provision (iii)	(1,841)	(634)
Currency translation differences	<u>1,467</u>	<u>1,848</u>
At end of period	<u>66,613</u>	<u>57,431</u>

- (i) During the nine months ended 30 September 2016, the Group made additional investments in existing associates, including JD.com, Inc. and WeBank Co., Ltd., acquired certain other associates, and re-designated from available-for-sale financial assets, with an aggregate amount of RMB8,669 million.

- (ii) It mainly represented the derecognition of CMC as an associate as mentioned in Note 16, and other disposals of and re-designation of investments in associates by the Group during the nine months ended 30 September 2016.
- (iii) During the nine months ended 30 September 2016, the Group made an aggregate impairment provision of RMB1,841 million (nine months ended 30 September 2015: RMB634 million) against the carrying amounts of its investments in certain associates, based on the results of impairment assessment performed on their carrying amounts against the respective recoverable amounts. The impairment loss was mainly resulted from revisions of long-term financial outlooks and the changes in business models of these associates.

(b) Investments in redeemable instruments of associates

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

The Group acquired several redeemable instruments of associates and made additional investments in existing redeemable instruments of associates for an aggregate consideration of RMB3,799 million during the nine months ended 30 September 2016.

During the nine months ended 30 September 2016, the Group made an impairment provision of approximately RMB1,094 million (nine months ended 30 September 2015: RMB286 million) against the carrying amounts of its investments in redeemable instruments of certain associates based on the results of impairment assessment performed with reference to the business performances and recoverable amounts of these investments.

9 Available-for-sale financial assets

	Unaudited 30 September 2016 RMB'Million	Audited 31 December 2015 RMB'Million
Listed equity interests	19,577	9,435
Unlisted equity investments	36,545	34,879
Other unlisted investments	89	25
	<u>56,211</u>	<u>44,339</u>

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

	Unaudited	
	Nine months ended	
	30 September	
	2016	2015
	RMB'Million	RMB'Million
At beginning of period	44,339	13,277
Additions (a)	7,555	9,713
Changes in fair value (b)	4,070	8,182
Impairment provision (c)	(981)	(586)
Currency translation differences	<u>1,228</u>	<u>860</u>
At end of period	<u><u>56,211</u></u>	<u><u>31,446</u></u>

Note:

- (a) During the nine months ended 30 September 2016, the Group acquired certain interests, made additional investments in certain existing interests including a company engaged in ride-hailing services, and redesignated investments in associates to available-for-sale financial assets, with an aggregate amount of RMB7,555 million.
- (b) Fair value gains recognised for the available-for-sale financial assets during the nine months ended 30 September 2016 of RMB4,070 million (nine months ended 30 September 2015: RMB8,182 million) were recognised in other comprehensive income.
- (c) During the nine months ended 30 September 2016, the Group made an impairment provision of RMB981 million (nine months ended 30 September 2015: RMB586 million) against the carrying amounts of certain available-for-sale financial assets, with reference to their respective recoverable amounts derived from their market value or business performance.

10 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited	Audited
	30 September	31 December
	2016	2015
	RMB'Million	RMB'Million
0 - 30 days	3,417	3,616
31 - 60 days	3,480	2,209
61 - 90 days	1,616	798
Over 90 days	<u>994</u>	<u>438</u>
	<u><u>9,507</u></u>	<u><u>7,061</u></u>

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

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

11 Entrustment Value

In prior financial periods, the cash amount deposited with banks under users' entrustment (the "Entrustment Value") had been presented and reported as "Restricted cash" under current assets and corresponding liability in equivalent amount as "Other payables and accruals" under current liabilities.

During the nine months ended 30 September 2016, in light of changes in operating environment in the PRC, and based on the advice of the Company's legal advisor, the Group has formed a view that it holds the Entrustment Value as a custodian and the Group has amended its relevant users' agreements to reflect such effect. Accordingly, the Group no longer recognises in its consolidated financial statements the Entrustment Value prospectively. The Group's net assets, cash and bank balances available for use, and net operating cash flow will not be affected by this change in accounting treatment.

As at 2 July 2016, being the effective date of amendments to the users' agreements, the Entrustment Value amounted to approximately RMB125 billion.

12 Share option and share award schemes

(a) Share option schemes

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

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

In respect of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2016	HKD80.59	25,697,305	HKD31.70	5,000,000	30,697,305
Granted	HKD160.11	11,843,070	—	—	11,843,070
Exercised	HKD26.38	(3,966,160)	HKD31.70	(2,500,000)	(6,466,160)
Lapsed	HKD36.35	<u>(68,775)</u>	—	<u>—</u>	<u>(68,775)</u>
At 30 September 2016	HKD115.21	<u>33,505,440</u>	HKD31.70	<u>2,500,000</u>	<u>36,005,440</u>
Exercisable as at 30 September 2016	HKD77.94	<u>11,600,244</u>	—	<u>—</u>	<u>11,600,244</u>
At 1 January 2015	HKD57.36	36,432,000	HKD31.70	5,000,000	41,432,000
Granted	HKD149.22	1,470,875	—	—	1,470,875
Exercised	HKD18.76	(9,053,283)	—	—	(9,053,283)
Lapsed	HKD32.62	<u>(504,500)</u>	—	<u>—</u>	<u>(504,500)</u>
At 30 September 2015	HKD74.90	<u>28,345,092</u>	HKD31.70	<u>5,000,000</u>	<u>33,345,092</u>
Exercisable as at 30 September 2015	HKD48.57	<u>11,029,341</u>	HKD31.70	<u>1,250,000</u>	<u>12,279,341</u>

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

(b) Share award schemes

The Company has adopted the Share Award Schemes, both of which are administered by an independent trustee appointed by the Group as of 30 September 2016. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the nine months ended 30 September 2016 and 2015 are as follows:

	Number of awarded shares
At 1 January 2016	91,786,907
Granted	43,198,880
Lapsed	(2,996,432)
Vested and transferred	<u>(47,581,468)</u>
At 30 September 2016	<u>84,407,887</u>
Vested but not transferred as at 30 September 2016	<u>7,706</u>
At 1 January 2015	82,035,522
Granted	28,082,850
Lapsed	(4,795,470)
Vested and transferred	<u>(26,172,920)</u>
At 30 September 2015	<u>79,149,982</u>
Vested but not transferred as at 30 September 2015	<u>—</u>

During the nine months ended 30 September 2016, 61,474 awarded shares were granted to four independent non-executive directors of the Company (nine months ended 30 September 2015: 75,000 awarded shares were granted to three independent non-executive directors of the Company).

13 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 September 2016 RMB'Million	Audited 31 December 2015 RMB'Million
0 - 30 days	17,845	10,019
31 - 60 days	1,829	1,774
61 - 90 days	1,282	1,518
Over 90 days	<u>2,944</u>	<u>2,389</u>
	<u>23,900</u>	<u>15,700</u>

14 Borrowings

	Unaudited	Audited
	30 September	31 December
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	<u>37,235</u>	<u>12,922</u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	12,421	10,715
Current portion of long-term USD bank borrowings, unsecured (a)	<u>134</u>	<u>714</u>
	<u>12,555</u>	<u>11,429</u>
	<u>49,790</u>	<u>24,351</u>

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD5,596 million (31 December 2015: USD2,100 million). Applicable interest rates are at LIBOR plus 0.91% to 1.51% (31 December 2015: LIBOR plus 1.02% to 1.52%) per annum.
- (b) The aggregate principal amount of short-term USD bank borrowings was USD1,860 million (31 December 2015: USD1,650 million). Applicable interest rates are at LIBOR plus 0.70% to 0.75% (31 December 2015: LIBOR plus 0.75% to 0.85% or an interest rate of 1.125%) per annum.

15 Notes payable

	Unaudited 30 September 2016 RMB'Million	Audited 31 December 2015 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	31,238	33,583
Non-current portion of long-term HKD notes payable	<u>3,602</u>	<u>3,509</u>
	<u>34,840</u>	<u>37,092</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	<u>7,338</u>	<u>3,886</u>
	<u>42,178</u>	<u>40,978</u>

Note:

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

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

16 CMC Integration

On 12 July 2016, the Group completed an integration of its online music business with CMC, an existing associate of the Group which also operates online music business in the PRC. The Group integrated its online music related operating assets and liabilities (the “Group’s Online Music Business”) into CMC in exchange for new ordinary shares of CMC (the “CMC Integration”). Upon the completion of the CMC Integration, the Group’s then prevailing 15.8% equity interest in CMC, that was previously accounted for as an associate, was derecognised as a deemed disposal and CMC became a non-wholly owned subsidiary in which the Group owns 61.6% interest.

The accounting consideration for the purpose of the CMC Integration is equivalent to aggregate fair value of the equity interest of the Group’s Online Music Business transferred and the equity interest in CMC deemed to be disposed. Goodwill and other identifiable intangible assets of RMB15,379 million and RMB2,714 million, respectively, together with other net assets and non-controlling interests, were recognised on a provisional basis as a result of the CMC Integration. Goodwill arising from the CMC Integration was attributable to operating synergies and economies of scale expected from integrating the operations of the Group’s Online Music Business and CMC.

The revenue and the results contributed by CMC to the Group for the period since the date of completion were insignificant. The Group’s revenue and results for the period would not be materially different should the CMC Integration otherwise occur on 1 January 2016.

17 Investment in Supercell

On 21 June 2016, a limited liability company, established and indirectly wholly owned by the Company at the time of establishment (the “Consortium”), has agreed to acquire up to approximately 84.3% equity interest in Supercell (the “Supercell Acquisition”). The consideration was to be financed by investments from the Group and potential co-investors in the Consortium as well as bank borrowings by the Consortium (the “Supercell Financing”).

As at 30 September 2016, approximately USD3.7 billion has been paid and recognised by the Group as prepayments in this Interim Financial Information, of which approximately USD1.2 billion has been recouped in October 2016.

The Consortium entered into a syndicated loan agreement with certain banks, and subscription agreements with certain co-investors, and the Supercell Financing was completed in October 2016. According to the subscription agreements, certain new shares of the Consortium were subscribed by the co-investors, and the Company’s indirect voting equity interest in the Consortium was reduced to 50% whilst the co-investors collectively hold 50% of the voting equity interest in the Consortium. As a result, the investment in the Consortium has been accounted for as investment in redeemable financial instrument and other financial instruments in an associate by the Group.

Upon completion of the Supercell Acquisition, the Consortium indirectly holds 76.9% equity interest in Supercell.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 30 September 2016.

Employee and Remuneration Policies

As at 30 September 2016, the Group had 38,072 employees (30 September 2015: 30,164). 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 30 September 2016 was RMB6,012 million (for the three months ended 30 September 2015: RMB4,968 million).

Audit Committee

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

Compliance with the Corporate Governance Code

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

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

APPRECIATION

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

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 16 November 2016

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

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

Jacobus Petrus (Koos) Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:

Li Dong Sheng, Iain Ferguson Bruce, Ian Charles Stone and Yang Siu Shun.

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

DEFINITION

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

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

“LBS”	Location Based Service
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MOBA”	Multiplayer Online Battle Arena
“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
“PvP”	player versus player
“RMB”	the lawful currency of the PRC
“RPG”	role playing game
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland

“Tencent Charity Funds”	charity funds established by the Group
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services