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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 SIX MONTHS ENDED 30 JUNE 2017

The Board is pleased to announce the unaudited consolidated results of the Group for the three and six months ended 30 June 2017. 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				
	30 June 2017	30 June 2016	Year- on-year change	31 March 2017	Quarter- on-quarter change
	(RMB in millions, unless specified)				
Revenues	56,606	35,691	59%	49,552	14%
Gross profit	28,306	20,456	38%	25,443	11%
Operating profit	22,560	14,329	57%	19,272	17%
Profit for the period	18,254	10,880	68%	14,548	25%
Profit attributable to equity holders of the Company	18,231	10,737	70%	14,476	26%
Non-GAAP profit attributable to equity holders of the Company	16,391	11,319	45%	14,211	15%
EPS (RMB per share)					
- basic	1.939	1.146	69%	1.540	26%
- diluted	1.914	1.133	69%	1.522	26%
Non-GAAP EPS (RMB per share)					
- basic	1.743	1.208	44%	1.512	15%
- diluted	1.721	1.194	44%	1.494	15%

Unaudited
Six months ended

	30 June 2017	30 June 2016	Year- on-year change
	(RMB in millions, unless specified)		
Revenues	106,158	67,686	57%
Gross profit	53,749	39,045	38%
Operating profit	41,832	27,727	51%
Profit for the period	32,802	20,148	63%
Profit attributable to equity holders of the Company	32,707	19,920	64%
Non-GAAP profit attributable to equity holders of the Company	30,602	21,351	43%
EPS (RMB per share)			
- basic	3.480	2.128	64%
- diluted	3.436	2.102	63%
Non-GAAP EPS (RMB per share)			
- basic	3.256	2.280	43%
- diluted	3.215	2.253	43%

BUSINESS REVIEW AND OUTLOOK

1. Company Financial Performance

In the second quarter of 2017

We achieved 59% year-on-year revenue growth, driven primarily by smart phone games and PC games, payment related services, online advertising, and digital content subscriptions and sales.

Operating profit grew by 57% year-on-year.

Profit attributable to equity holders of the Company increased by 70% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 45%. Free cash flow grew by 80%.

2. Company Business Highlights

Operating Information

	As at 30 June 2017	As at 30 June 2016 (in millions, unless specified)	Year- on-year change	As at 31 March 2017	Quarter- on-quarter change
MAU of QQ	850.1	899.0	-5.4%	860.6	-1.2%
Smart device MAU of QQ ¹	662.3	688.9	-3.9%	678.0	-2.3%
PCU of QQ (for the quarter)	267.6	246.9	8.4%	266.4	0.5%
Combined MAU of Weixin and WeChat	962.8	805.7	19.5%	937.8	2.7%
MAU of Qzone	605.8	651.5	-7.0%	631.5	-4.1%
Smart device MAU of Qzone ¹	585.7	606.9	-3.5%	604.6	-3.1%
Fee-based VAS registered subscriptions	118.1	105.1	12.4%	119.0	-0.8%

¹ Since the first quarter of 2017, we have adjusted historical smart device QQ and Qzone MAU figures so as to include users who only participate in certain activities inside the QQ and Qzone applications, such as interest groups, listening to online music, or reading online literature. These changes had a relatively immaterial impact on the MAU count and growth rates, but we feel better reflect the broadening range of user activities within QQ.

Social and Communication

- *QQ*: Overall smart device MAU was down by 3.9% year-on-year due to fewer casual users, while engagement with core users increased. Specifically, PCU, including PC and mobile, increased by 8.4% year-on-year to 268 million. In addition, smart device MAU for users aged 21 years or below was up year-on-year, demonstrating QQ's increased popularity among younger users. Popular features within Mobile QQ, such as Kandian news feeds, increased average user time spent within Mobile QQ.
- *Qzone*: Smart device MAU was down by 3.5% year-on-year broadly in line with the decrease in smart device MAU of QQ. We introduced campus page to increase engagement among users in high schools and colleges.
- *Weixin* and *WeChat*: MAU reached 963 million, representing year-on-year growth of 19.5%. We have extended user access to *Mini Programs* through the launch of keyword and location-based search functions.

Online Games

PC client games achieved approximately RMB13.6 billion in revenue, representing 29% year-on-year revenue growth with exceptional strength from key titles such as LoL and DnF. ARPU generally increased both year-on-year and quarter-on-quarter. We expect PC client game revenue growth rates to decelerate in future periods.

Smart phone games grew by 54% year-on-year to approximately RMB14.8 billion in revenue (including smart phone games revenue attributable to our social networks business) and exceeded PC client games revenue for the first time. Revenue growth in smart phone games was driven by existing titles such as Honour of Kings in the MOBA genre, and new titles such as the China version of Contra Return in the Action genre, Dragon Nest Mobile and Legacy TLBB Mobile in the RPG genre.

Digital Content

Digital content revenue continued to record rapid growth during the quarter, primarily driven by the strong performance of virtual gifting within live broadcast, video subscriptions and music services subscriptions.

Online Advertising

Our online advertising business achieved 55% year-on-year growth in revenue.

For media advertising, increased mobile video views and the news feeds of Tencent News were the key contributors to year-on-year revenue growth. High quality content, notably certain licensed TV dramas and self-commissioned variety shows, attracted users to our video platforms and generated a substantial increase in advertising revenue. While our mobile news services maintained industry leadership in terms of DAU, we focused on sharpening personalized recommendation of our news feeds to further enhance our user experience.

For social and others advertising, Weixin properties, our mobile browser and advertising network, were the primary drivers of revenue growth. We increased inventories in Weixin by lowering the traffic threshold for loading advertisements in Weixin Official Accounts and we expanded our self-service advertising platform to cover first-tier cities for placing Weixin Moments advertisements.

Others

We recorded 177% year-on-year revenue growth for other businesses, which was primarily driven by the growth of payment related and cloud services. Payment business for commercial transactions increased rapidly as we strengthened cooperation with Meituan-Dianping and other channel partners to expand our offline merchant base.

Tencent Cloud further expanded its global infrastructure coverage and now operates 34 availability zones around the world. In addition to solidifying our lead in providing cloud services to the game, video and live broadcast industries, we expanded our market share in TMT and finance industries during the quarter.

We view artificial intelligence (“AI”) as an essential capability that benefits our businesses by enhancing our overall user experience, sharpening our targeting technology and empowering our ecosystem partners. Our in-house engineers have recently made breakthroughs in several areas including Go Chess AI, face recognition and medical imaging. Artificial intelligence is a strategic initiative and we will continue to make long-term investments to strengthen our competence in machine learning, computer vision, speech recognition and natural language processing. Given the intensifying competitive nature of the industry, we expect our investment in new initiatives such as payment, cloud services and AI to increase.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2017 Compared to Second Quarter of 2016

The following table sets forth the comparative figures for the second quarter of 2017 and the second quarter of 2016:

	Unaudited	
	Three months ended	
	30 June	30 June
	2017	2016
	(RMB in millions)	
Revenues	56,606	35,691
Cost of revenues	<u>(28,300)</u>	<u>(15,235)</u>
Gross profit	28,306	20,456
Interest income	959	626
Other gains, net	5,125	911
Selling and marketing expenses	(3,660)	(2,365)
General and administrative expenses	<u>(8,170)</u>	<u>(5,299)</u>
Operating profit	22,560	14,329
Finance costs, net	(834)	(377)
Share of profit/(losses) of associates and joint ventures	<u>498</u>	<u>(292)</u>
Profit before income tax	22,224	13,660
Income tax expense	<u>(3,970)</u>	<u>(2,780)</u>
Profit for the period	<u>18,254</u>	<u>10,880</u>
Attributable to:		
Equity holders of the Company	18,231	10,737
Non-controlling interests	<u>23</u>	<u>143</u>
	<u>18,254</u>	<u>10,880</u>
Non-GAAP profit attributable to equity holders of the Company	<u>16,391</u>	<u>11,319</u>

Revenues. Revenues increased by 59% to RMB56,606 million for the second quarter of 2017 on a year-on-year basis. The following table sets forth our revenues by line of business for the second quarter of 2017 and the second quarter of 2016:

	Unaudited			
	Three months ended			
	30 June 2017		30 June 2016	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	36,804	65%	25,680	72%
Online advertising	10,148	18%	6,532	18%
Others	9,654	17%	3,479	10%
Total revenues	<u>56,606</u>	<u>100%</u>	<u>35,691</u>	<u>100%</u>

- Revenues from our VAS business increased by 43% to RMB36,804 million for the second quarter of 2017 on a year-on-year basis. Online games revenues increased by 39% to RMB23,861 million, primarily driven by revenue growth from our smart phone games, including existing titles such as Honour of Kings, and new titles such as the China version of Contra Return, Dragon Nest Mobile and Legacy TLBB Mobile, and from our key PC titles such as LoL and DnF. Social networks revenues increased by 51% to RMB12,943 million, mainly reflecting growth in revenues from digital content services such as live broadcast, video and music, as well as from virtual item sales.
- Revenues from our online advertising business increased by 55% to RMB10,148 million for the second quarter of 2017 on a year-on-year basis. Media advertising revenues grew by 48% to RMB4,077 million. The increase mainly reflected higher traffic and thus revenues for our Tencent Video services and the development of news feeds for our Tencent News products. Social and others advertising revenues grew by 61% to RMB6,071 million. The increase primarily reflected growth in advertising revenues derived from Weixin (primarily Weixin Moments and Weixin Official Accounts) and other mobile apps.²

² Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 71% to RMB6,332 million and brand display advertising revenues increased by 35% to RMB3,816 million on a year-on-year basis.

- Revenues from our other businesses increased by 177% to RMB9,654 million for the second quarter of 2017 on a year-on-year basis. The increase was mainly due to revenue growth from our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 86% to RMB28,300 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected 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 50% for the second quarter of 2017 from 43% for the second quarter of 2016, primarily due to business mix changes. The following table sets forth our cost of revenues by line of business for the second quarter of 2017 and the second quarter of 2016:

	Unaudited			
	Three months ended			
	30 June 2017		30 June 2016	
	Amount	% of segment revenues	Amount	% of segment revenues
(RMB in millions, unless specified)				
VAS	14,501	39%	8,550	33%
Online advertising	6,307	62%	3,575	55%
Others	<u>7,492</u>	78%	<u>3,110</u>	89%
Total cost of revenues	<u>28,300</u>		<u>15,235</u>	

- Cost of revenues for our VAS business increased by 70% to RMB14,501 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater sharing and content costs, as well as greater channel costs for our smart phone games, in turn due to closer cooperation with third-party app stores and an increased share of smart phone game revenues from iOS.
- Cost of revenues for our online advertising business increased by 76% to RMB6,307 million for the second quarter of 2017 on a year-on-year basis. The increase was primarily due to greater investment in, and amortisation of, video content, particularly self-commissioned video content. Other costs such as traffic acquisition costs also increased.
- Cost of revenues for our other businesses increased by 141% to RMB7,492 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater costs in payment related and cloud services.

Other gains, net. We recorded net other gains totalling RMB5,125 million for the second quarter of 2017, which mainly consisted of fair value gains as a result of significant increases in valuations of certain investments in verticals including bike sharing and fintech, as well as deemed disposal gains arising from the capital activities of certain investee companies, particularly the IPO of Korean mobile game publisher Netmarble, partly offset by impairment provision charges for certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 55% to RMB3,660 million for the second quarter of 2017 on a year-on-year basis. The increase primarily reflected greater marketing spending on products and platforms such as online games, payment related services and online media, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses decreased to 6% for the second quarter of 2017 from 7% for the second quarter of 2016.

General and administrative expenses. General and administrative expenses increased by 54% to RMB8,170 million for the second quarter of 2017 on a year-on-year basis. The increase was primarily driven by greater research and development expenses, as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 14% for the second quarter of 2017 from 15% for the second quarter of 2016.

Finance costs, net. Net finance costs increased by 121% to RMB834 million for the second quarter of 2017 on a year-on-year basis. The increase mainly reflected greater interest expenses as a result of higher amount of indebtedness.

Share of profit/(losses) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB498 million for the second quarter of 2017, compared to share of losses of RMB292 million for the second quarter of 2016. Some of our investee companies registered profits (in some cases including one-off gains) for the second quarter of 2017, compared to losses for the second quarter of 2016.

Income tax expense. Income tax expense increased by 43% to RMB3,970 million for the second quarter of 2017 on a year-on-year basis, primarily reflecting greater profit before income tax and withholding tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 70% to RMB18,231 million for the second quarter of 2017 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 45% to RMB16,391 million.

Second Quarter of 2017 Compared to First Quarter of 2017

The following table sets forth the comparative figures for the second quarter of 2017 and the first quarter of 2017:

	Unaudited	
	Three months ended	
	30 June	31 March
	2017	2017
	(RMB in millions)	
Revenues	56,606	49,552
Cost of revenues	<u>(28,300)</u>	<u>(24,109)</u>
Gross profit	28,306	25,443
Interest income	959	808
Other gains, net	5,125	3,191
Selling and marketing expenses	(3,660)	(3,158)
General and administrative expenses	<u>(8,170)</u>	<u>(7,012)</u>
Operating profit	22,560	19,272
Finance costs, net	(834)	(691)
Share of profit/(losses) of associates and joint ventures	<u>498</u>	<u>(375)</u>
Profit before income tax	22,224	18,206
Income tax expense	<u>(3,970)</u>	<u>(3,658)</u>
Profit for the period	<u>18,254</u>	<u>14,548</u>
Attributable to:		
Equity holders of the Company	18,231	14,476
Non-controlling interests	<u>23</u>	<u>72</u>
	<u>18,254</u>	<u>14,548</u>
Non-GAAP profit attributable to equity holders of the Company	<u>16,391</u>	<u>14,211</u>

Revenues. Revenues increased by 14% to RMB56,606 million for the second quarter of 2017 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 5% to RMB36,804 million for the second quarter of 2017. Online games revenues increased by 5% to RMB23,861 million. The increase mainly reflected higher revenues from our major smart phone games such as Honour of Kings, and newly launched smart phone games such as the China version of Contra Return, Dragon Nest Mobile and Legacy TLBB Mobile, partially offset by weaker seasonality for our PC client games. Social networks revenues grew by 5% to RMB12,943 million. The increase was mainly driven by revenue growth from our digital content services such as live broadcast, literature and music, and from virtual item sales.
- Revenues from our online advertising business increased by 47% to RMB10,148 million for the second quarter of 2017. Media advertising revenues climbed by 62% to RMB4,077 million, primarily due to positive seasonality and an increase in traffic and thus revenues from Tencent Video. Social and others advertising revenues climbed by 39% to RMB6,071 million, mainly driven by positive seasonality and increased advertising revenues derived from Weixin Moments and Weixin Official Accounts.³
- Revenues from our other businesses increased by 28% to RMB9,654 million for the second quarter of 2017. The increase was mainly due to higher revenues from our payment related services, TV drama and movie investments, as well as cloud services.

Cost of revenues. Cost of revenues increased by 17% to RMB28,300 million for the second quarter of 2017 on a quarter-on-quarter basis. The increase primarily reflected greater sharing and content costs, costs of payment related services, and channel costs. As a percentage of revenues, cost of revenues increased to 50% for the second quarter of 2017 from 49% for the first quarter of 2017.

- Cost of revenues for our VAS business increased by 6% to RMB14,501 million for the second quarter of 2017. The increase mainly reflected greater channel costs.

³ Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 34% to RMB6,332 million and brand display advertising revenues increased by 78% to RMB3,816 million on a quarter-on-quarter basis.

- Cost of revenues for our online advertising business increased by 40% to RMB6,307 million for the second quarter of 2017. The increase was primarily due to greater investment in, and amortisation of, video content.
- Cost of revenues for our other businesses increased by 27% to RMB7,492 million for the second quarter of 2017. The increase was mainly driven by greater costs in payment related services as well as TV drama and movie investments.

Selling and marketing expenses. Selling and marketing expenses increased by 16% to RMB3,660 million for the second quarter of 2017 on a quarter-on-quarter basis. The increase mainly reflected seasonally more advertising and promotional activities in the second quarter than the first quarter.

General and administrative expenses. General and administrative expenses increased by 17% to RMB8,170 million for the second quarter of 2017 on a quarter-on-quarter basis. The increase was primarily driven by greater research and development expenses and staff costs.

Share of profit/(losses) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB498 million for the second quarter of 2017, compared to share of losses of RMB375 million for the first quarter of 2017. The change mainly reflected one-off gains recognised by investee companies and higher profit arising from our certain investee companies in the second quarter of 2017.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 26% to RMB18,231 million for the second quarter of 2017 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 15% to RMB16,391 million.

Other Financial Information

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June	31 March	30 June	30 June	30 June
	2017	2017	2016	2017	2016
	(RMB in millions, unless specified)				
EBITDA (a)	22,427	19,995	15,581	42,422	29,910
Adjusted EBITDA (a)	23,802	21,300	16,401	45,102	31,405
Adjusted EBITDA margin (b)	42%	43%	46%	42%	46%
Interest expense	760	667	494	1,427	971
Net cash (c)	21,267	27,572	24,037	21,267	24,037
Capital expenditures (d)	3,010	2,108	1,505	5,118	5,610

Note:

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

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

	Unaudited			Unaudited	
	Three months ended			Six months ended	
	30 June	31 March	30 June	30 June	30 June
	2017	2017	2016	2017	2016
	(RMB in millions, unless specified)				
Operating profit	22,560	19,272	14,329	41,832	27,727
Adjustments:					
Interest income	(959)	(808)	(626)	(1,767)	(1,329)
Other (gains)/losses, net	(5,125)	(3,191)	(911)	(8,316)	(1,417)
Depreciation of property, plant and equipment and investment properties	1,158	1,083	907	2,241	1,776
Amortisation of intangible assets	4,793	3,639	1,882	8,432	3,153
EBITDA	22,427	19,995	15,581	42,422	29,910
Equity-settled share-based compensation	1,375	1,305	820	2,680	1,495
Adjusted EBITDA	<u>23,802</u>	<u>21,300</u>	<u>16,401</u>	<u>45,102</u>	<u>31,405</u>

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain additional non-GAAP financial measures (in terms of, operating profit, operating margin, profit for the period, net margin, profit attributable to equity holders of the Company, basic EPS and 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 second quarter of 2017 and 2016, the first quarter of 2017, and the first half of 2017 and 2016 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 30 June 2017						
As reported	Adjustments				Impairment provision	Non-GAAP
	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets			
	(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)						
Operating profit	22,560	1,408	(5,619)	115	1,572	20,036
Profit for the period	18,254	1,553	(5,691)	472	1,899	16,487
Profit attributable to equity holders	18,231	1,492	(5,670)	439	1,899	16,391
EPS (RMB per share)						
- basic	1.939					1.743
- diluted	1.914					1.721
Operating margin	40%					35%
Net margin	32%					29%

Unaudited three months ended 31 March 2017

	Adjustments					Non-GAAP
	As reported	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	19,272	1,339	(2,747)	153	503	18,520
Profit for the period	14,548	1,530	(2,717)	500	511	14,372
Profit attributable to equity holders	14,476	1,483	(2,717)	458	511	14,211
EPS (RMB per share)						
- basic	1.540					1.512
- diluted	1.522					1.494
Operating margin	39%					37%
Net margin	29%					29%

Unaudited three months ended 30 June 2016

	Adjustments					Non-GAAP
	As reported	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	14,329	862	(2,990)	49	2,437	14,687
Profit for the period	10,880	1,056	(3,251)	328	2,483	11,496
Profit attributable to equity holders	10,737	1,037	(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 six months ended 30 June 2017

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
	(a)	(b)	(c)	(d)		
	(RMB in millions, unless specified)					
Operating profit	41,832	2,747	(8,366)	268	2,075	38,556
Profit for the period	32,802	3,083	(8,408)	972	2,410	30,859
Profit attributable to equity holders	32,707	2,975	(8,387)	897	2,410	30,602
EPS (RMB per share)						
- basic	3.480					3.256
- diluted	3.436					3.215
Operating margin	39%					36%
Net margin	31%					29%

Unaudited six months ended 30 June 2016

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
	(a)	(b)	(c)	(d)		
	(RMB in millions, unless specified)					
Operating profit	27,727	1,569	(3,718)	96	2,497	28,171
Profit for the period	20,148	1,954	(4,037)	684	2,881	21,630
Profit attributable to equity holders	19,920	1,926	(4,033)	665	2,873	21,351
EPS (RMB per share)						
- basic	2.128					2.280
- diluted	2.102					2.253
Operating margin	41%					42%
Net margin	30%					32%

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 arising from investments
- (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 June 2017 and 31 March 2017 are as follows:

	Unaudited 30 June 2017	Unaudited 31 March 2017
	(RMB in millions)	
Cash and cash equivalents	70,301	68,861
Term deposits and others	<u>67,558</u>	<u>72,995</u>
	137,859	141,856
Borrowings	(81,239)	(74,824)
Notes payable	<u>(35,353)</u>	<u>(39,460)</u>
Net cash	<u>21,267</u>	<u>27,572</u>

As at 30 June 2017, the Group had net cash of RMB21,267 million. The sequential decrease in net cash mainly reflected payment of our final dividend for the year ended 31 December 2016. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB146 billion as at 30 June 2017.

As at 30 June 2017, RMB42,253 million of our financial resources (cash and cash equivalents, as well as term deposits and others, such as treasury investments with high liquidity) were denominated in non-RMB currencies.

For the second quarter of 2017, the Group had free cash flow of RMB17,511 million. This was a result of net cash flow generated from operating activities of RMB20,468 million, offset by payments for capital expenditure of RMB2,957 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017	2016	2017	2016
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
		36,804	25,680	71,912	50,644
		10,148	6,532	17,036	11,233
		9,654	3,479	17,210	5,809
		56,606	35,691	106,158	67,686
Cost of revenues	4	(28,300)	(15,235)	(52,409)	(28,641)
Gross profit		28,306	20,456	53,749	39,045
Interest income		959	626	1,767	1,329
Other gains, net	3	5,125	911	8,316	1,417
Selling and marketing expenses	4	(3,660)	(2,365)	(6,818)	(4,397)
General and administrative expenses	4	(8,170)	(5,299)	(15,182)	(9,667)
Operating profit		22,560	14,329	41,832	27,727
Finance costs, net		(834)	(377)	(1,525)	(868)
Share of profit/(losses) of associates and joint ventures		498	(292)	123	(1,381)
Profit before income tax		22,224	13,660	40,430	25,478
Income tax expense	5	(3,970)	(2,780)	(7,628)	(5,330)
Profit for the period		18,254	10,880	32,802	20,148

		Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017	2016	2017	2016
Note		RMB'Million	RMB'Million	RMB'Million	RMB'Million
Attributable to:					
	Equity holders of the Company	18,231	10,737	32,707	19,920
	Non-controlling interests	<u>23</u>	<u>143</u>	<u>95</u>	<u>228</u>
		<u>18,254</u>	<u>10,880</u>	<u>32,802</u>	<u>20,148</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
	- basic	6	<u>1.939</u>	<u>1.146</u>	<u>3.480</u>
	- diluted	6	<u>1.914</u>	<u>1.133</u>	<u>3.436</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	18,254	10,880	32,802	20,148
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	66	277	177	285
Net gains from changes in fair value of available-for-sale financial assets	10,190	4,979	17,416	3,326
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	79	(1,832)	79
Currency translation differences	(3,232)	1,308	(4,217)	1,094
Other fair value losses	(162)	(182)	(103)	(321)
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Other fair value losses	(47)	(66)	(390)	(328)
	6,815	6,395	11,051	4,135
Total comprehensive income for the period	25,069	17,275	43,853	24,283
Attributable to:				
Equity holders of the Company	25,063	17,116	43,780	24,036
Non-controlling interests	6	159	73	247
	25,069	17,275	43,853	24,283

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

		Unaudited	Audited
		30 June	31 December
		2017	2016
	Note	RMB' Million	RMB' Million
ASSETS			
Non-current assets			
Property, plant and equipment		15,874	13,900
Construction in progress		5,346	4,674
Investment properties		846	854
Land use rights		5,165	5,174
Intangible assets		38,891	36,467
Investments in associates	8	74,202	70,042
Investments in redeemable instruments of associates	9	23,789	9,627
Investments in joint ventures		715	630
Available-for-sale financial assets	10	107,117	83,806
Prepayments, deposits and other assets		8,261	7,363
Other financial assets		4,033	1,760
Deferred income tax assets		8,076	7,033
Term deposits		5,364	5,415
		<u>297,679</u>	<u>246,745</u>
Current assets			
Inventories		297	263
Accounts receivable	11	14,448	10,152
Prepayments, deposits and other assets		18,013	14,118
Other financial assets		1,974	1,649
Term deposits		61,474	50,320
Restricted cash		1,327	750
Cash and cash equivalents		70,301	71,902
		<u>167,834</u>	<u>149,154</u>
Total assets		<u>465,513</u>	<u>395,899</u>

		Unaudited	Audited
		30 June	31 December
		2017	2016
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		19,793	17,324
Shares held for share award schemes		(3,513)	(3,136)
Other reserves		33,996	23,693
Retained earnings		<u>164,398</u>	<u>136,743</u>
		214,674	174,624
Non-controlling interests		<u>11,724</u>	<u>11,623</u>
Total equity		<u>226,398</u>	<u>186,247</u>
LIABILITIES			
Non-current liabilities			
Borrowings	14	70,460	57,549
Notes payable	15	31,294	36,204
Long-term payables		4,459	4,935
Other financial liabilities		2,468	2,576
Deferred income tax liabilities		5,171	5,153
Deferred revenue		<u>1,886</u>	<u>2,038</u>
		<u>115,738</u>	<u>108,455</u>
Current liabilities			
Accounts payable	13	36,982	27,413
Other payables and accruals		21,224	20,873
Borrowings	14	10,779	12,278
Notes payable	15	4,059	3,466
Current income tax liabilities		6,332	5,219
Other tax liabilities		1,041	745
Deferred revenue		<u>42,960</u>	<u>31,203</u>
		<u>123,377</u>	<u>101,197</u>
Total liabilities		<u>239,115</u>	<u>209,652</u>
Total equity and liabilities		<u>465,513</u>	<u>395,899</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017

	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 2017	—	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247
Comprehensive income								
Profit for the period	—	—	—	—	32,707	32,707	95	32,802
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	—	—	—	177	—	177	—	177
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	17,416	—	17,416	—	17,416
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	(1,832)	—	(1,832)	—	(1,832)
- currency translation differences	—	—	—	(4,195)	—	(4,195)	(22)	(4,217)
- other fair value losses, net	—	—	—	(493)	—	(493)	—	(493)
Total comprehensive income for the period	—	—	—	11,073	32,707	43,780	73	43,853
Transactions with equity holders								
Capital injection	—	—	—	—	—	—	209	209
Employee share option schemes:								
- value of employee services	—	394	—	101	—	495	60	555
- proceeds from shares issued	—	82	—	—	—	82	—	82
Employee share award schemes:								
- value of employee services	—	1,868	—	215	—	2,083	47	2,130
- shares withheld for share award schemes	—	—	(664)	—	—	(664)	—	(664)
- vesting of awarded shares	—	(287)	287	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	118	—	118	—	118
Dividends (Note 7)	—	—	—	—	(5,052)	(5,052)	(461)	(5,513)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	412	—	(636)	—	(224)	(262)	(486)
Disposal of subsidiaries	—	—	—	—	—	—	(133)	(133)
Partial disposal of equity interests in subsidiaries	—	—	—	(103)	—	(103)	103	—
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(465)	—	(465)	465	—
Total transactions with equity holders at their capacity as equity holders for the period	—	2,469	(377)	(770)	(5,052)	(3,730)	28	(3,702)
Balance at 30 June 2017	—	19,793	(3,513)	33,996	164,398	214,674	11,724	226,398

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 2016	<u>—</u>	<u>12,167</u>	<u>(1,817)</u>	<u>9,673</u>	<u>100,012</u>	<u>120,035</u>	<u>2,065</u>	<u>122,100</u>
Comprehensive income								
Profit for the period	—	—	—	—	19,920	19,920	228	20,148
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	—	—	—	285	—	285	—	285
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	3,326	—	3,326	—	3,326
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	79	—	79	—	79
- currency translation differences	—	—	—	1,075	—	1,075	19	1,094
- other fair value losses, net	<u>—</u>	<u>—</u>	<u>—</u>	<u>(649)</u>	<u>—</u>	<u>(649)</u>	<u>—</u>	<u>(649)</u>
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,116</u>	<u>19,920</u>	<u>24,036</u>	<u>247</u>	<u>24,283</u>
Transactions with equity holders								
Capital injection	—	—	—	—	—	—	233	233
Employee share option schemes:								
- value of employee services	—	126	—	—	—	126	—	126
- proceeds from shares issued	—	120	—	—	—	120	—	120
Employee share award schemes:								
- value of employee services	—	1,163	—	181	—	1,344	27	1,371
- shares withheld for share award schemes	—	—	(792)	—	—	(792)	—	(792)
- vesting of awarded shares	—	(184)	184	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	730	—	730	—	730
Profit appropriations to statutory reserves	—	—	—	24	(24)	—	—	—
Dividends	—	—	—	—	(3,716)	(3,716)	(523)	(4,239)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	1,227	—	(1,448)	—	(221)	178	(43)
Disposal of a subsidiary	—	—	—	—	—	—	(2)	(2)
Partial disposal of equity interests in subsidiaries	—	—	—	109	—	109	125	234
Transfer of equity interests of subsidiaries to non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>(501)</u>	<u>—</u>	<u>(501)</u>	<u>501</u>	<u>—</u>
Total transactions with equity holders at their capacity as equity holders for the period	<u>—</u>	<u>2,452</u>	<u>(608)</u>	<u>(905)</u>	<u>(3,740)</u>	<u>(2,801)</u>	<u>539</u>	<u>(2,262)</u>
Balance at 30 June 2016	<u>—</u>	<u>14,619</u>	<u>(2,425)</u>	<u>12,884</u>	<u>116,192</u>	<u>141,270</u>	<u>2,851</u>	<u>144,121</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Unaudited	
	Six months ended	
	30 June	
	2017	2016
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	47,082	28,849
Net cash flows used in investing activities	(50,333)	(21,692)
Net cash flows generated from financing activities	<u>2,590</u>	<u>12,704</u>
Net (decrease)/increase in cash and cash equivalents	(661)	19,861
Cash and cash equivalents at beginning of the period	71,902	43,438
Exchange (losses)/gains on cash and cash equivalents	<u>(940)</u>	<u>907</u>
Cash and cash equivalents at end of the period	<u><u>70,301</u></u>	<u><u>64,206</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	31,527	38,640
Term deposits and highly liquid investments with initial terms within three months	<u>38,774</u>	<u>25,566</u>
	<u><u>70,301</u></u>	<u><u>64,206</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.

The condensed consolidated interim financial information comprises the consolidated statement of financial position as at 30 June 2017, the related consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period 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 2016, which have been prepared in accordance with IFRS, as set out in the 2016 annual report of the Company dated 22 March 2017 (the “2016 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 2016 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, financial assets at fair value through profit or loss and derivative financial instruments, 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 2017 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 six months ended 30 June 2017 and 2016:

- VAS;
- Online advertising; and
- Others.

“Others” primarily comprises payment related services, cloud services and other services.

There were no material inter-segment sales during the three and six months ended 30 June 2017 and 2016. 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 six months ended 30 June 2017 and 2016 is as follows:

	Unaudited			
	Three months ended 30 June 2017			
	VAS	Online	Others	Total
	RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>36,804</u>	<u>10,148</u>	<u>9,654</u>	<u>56,606</u>
Gross profit	<u>22,303</u>	<u>3,841</u>	<u>2,162</u>	<u>28,306</u>
Depreciation	490	109	319	918
Amortisation	<u>1,734</u>	<u>2,864</u>	<u>–</u>	<u>4,598</u>

	Unaudited			
	Three months ended 30 June 2016			
	VAS	Online	Others	Total
	RMB'Million	advertising RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>25,680</u>	<u>6,532</u>	<u>3,479</u>	<u>35,691</u>
Gross profit	<u>17,130</u>	<u>2,957</u>	<u>369</u>	<u>20,456</u>
Depreciation	450	49	121	620
Amortisation	<u>387</u>	<u>1,384</u>	<u>–</u>	<u>1,771</u>

Unaudited
Six months ended 30 June 2017

	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>71,912</u>	<u>17,036</u>	<u>17,210</u>	<u>106,158</u>
Gross profit	<u>43,694</u>	<u>6,240</u>	<u>3,815</u>	<u>53,749</u>
Depreciation	1,013	168	543	1,724
Amortisation	<u>3,843</u>	<u>4,158</u>	<u>—</u>	<u>8,001</u>

Unaudited
Six months ended 30 June 2016

	VAS RMB'Million	Online advertising RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	<u>50,644</u>	<u>11,233</u>	<u>5,809</u>	<u>67,686</u>
Gross profit	<u>33,504</u>	<u>5,009</u>	<u>532</u>	<u>39,045</u>
Depreciation	897	96	229	1,222
Amortisation	<u>876</u>	<u>2,056</u>	<u>—</u>	<u>2,932</u>

3 Other gains, net

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Gains on disposals and deemed disposals of investee companies	3,132	2,327	5,860	3,060
Fair value gains on other financial instruments	2,487	663	2,506	658
Impairment provision for investee companies and intangible assets from acquisitions	(1,572)	(2,437)	(2,075)	(2,497)
Subsidies and tax rebates	1,014	154	1,818	286
Dividend income	97	33	773	51
Donations to Tencent Charity Fund	—	—	(550)	(350)
Others	(33)	171	(16)	209
	<u>5,125</u>	<u>911</u>	<u>8,316</u>	<u>1,417</u>

4 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (a)	8,594	5,426	16,017	10,205
Content costs and agency fees (excluding amortisation of intangible assets)	8,010	4,945	15,613	10,220
Channel costs	3,656	1,961	6,702	3,548
Bandwidth and server custody fees	2,660	1,869	5,091	3,572
Promotion and advertising expenses	2,723	1,701	5,048	3,117
Operating lease rentals in respect of office buildings	319	275	625	518
Travelling and entertainment expenses	246	176	440	341
Amortisation of intangible assets (b)	4,793	1,882	8,432	3,153
Depreciation of property, plant and equipment	1,151	903	2,227	1,771

Note:

- (a) During the three and six months ended 30 June 2017, the Group incurred expenses for the purpose of research and development of approximately RMB4,241 million and RMB7,838 million, respectively (three and six months ended 30 June 2016: RMB2,746 million and RMB5,079 million, respectively), which comprised employee benefits expenses of RMB3,686 million and RMB6,667 million, respectively (three and six months ended 30 June 2016: RMB2,116 million and RMB3,976 million, respectively).

No significant development expenses had been capitalised for the three and six months ended 30 June 2017 and 2016.

- (b) Mainly included amortisation charge of intangible assets in respect of media contents and game licences.

5 Income Tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and six months ended 30 June 2017 and 2016.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the three and six months ended 30 June 2017 and 2016.

(c) PRC corporate income tax

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits and the estimated assessable profits of entities within the Group established in the PRC for the three and six months ended 30 June 2017 and 2016. The general PRC CIT rate is 25% for the three and six months ended 30 June 2017 and 2016.

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 six months ended 30 June 2017 and 2016. Meanwhile certain subsidiaries of the Company were in the process of renewing such entitlements by applying to the relevant government authorities as at 30 June 2017. The directors of the Company expect that they will continue to be approved as High and New Technology Enterprises. As such, CIT rate of 15% was adopted by these subsidiaries in accruing their CIT liabilities for the three and six months ended 30 June 2017.

In addition, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, software enterprise that is entitled to the preferential tax rate of 10% as a national key software enterprise shall file its status with tax authorities for record in accordance with the relevant requirements upon the time of final tax settlement each year. The filing records will be subject to verification by relevant government authorities. Accordingly, PRC CIT for the relevant subsidiaries of the Company applying for this preferential tax treatment has been provided for at their respective prevailing tax rates during the period. Upon completion of the verification process, the relevant subsidiaries of the Company will be entitled to CIT rate of 10% and corresponding tax adjustments will be accounted for.

Moreover, 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

Income tax on profits arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profits for the three and six months ended 30 June 2017 and 2016 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5 % to 36%.

(e) Withholding tax

According to applicable tax regulations prevailing in the PRC, 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, 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.

Dividends distributed from certain jurisdictions that the Group's entities operate in are also subject to withholding tax at respective applicable tax rates.

The income tax expense of the Group for the three and six months ended 30 June 2017 and 2016 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current income tax	3,824	2,902	7,516	5,262
Deferred income tax	146	(122)	112	68
	<u>3,970</u>	<u>2,780</u>	<u>7,628</u>	<u>5,330</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 Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
Profit attributable to equity holders of the Company (RMB' Million)	<u>18,231</u>	<u>10,737</u>	<u>32,707</u>	<u>19,920</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,403</u>	<u>9,369</u>	<u>9,400</u>	<u>9,363</u>
Basic EPS (RMB per share)	<u>1.939</u>	<u>1.146</u>	<u>3.480</u>	<u>2.128</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 six months ended 30 June 2017 and 2016, these share options, restricted shares and convertible bonds had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2017	2016	2017	2016
Profit attributable to equity holders of the Company (RMB' Million)	<u>18,231</u>	<u>10,737</u>	<u>32,707</u>	<u>19,920</u>
Weighted average number of ordinary shares in issue (million shares)	9,403	9,369	9,400	9,363
Adjustments for share options and awarded shares (million shares)	<u>121</u>	<u>111</u>	<u>120</u>	<u>112</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,524</u>	<u>9,480</u>	<u>9,520</u>	<u>9,475</u>
Diluted EPS (RMB per share)	<u>1.914</u>	<u>1.133</u>	<u>3.436</u>	<u>2.102</u>

7 Dividends

A final dividend in respect of the year ended 31 December 2016 of HKD0.61 per share (2015: HKD0.47 per share) was proposed pursuant to a resolution passed by the Board on 22 March 2017 and approved by the shareholders of the Company at the 2017 AGM. Such dividend amounting to RMB5,052 million (final dividend for 2015: RMB3,716 million) was paid before 30 June 2017.

The Board did not declare any interim dividend for the six months ended 30 June 2017 and 2016.

8 Investments in associates

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'Million	RMB'Million
Investments in associates		
- Listed entities (Note)	43,029	38,516
- Unlisted entities	<u>31,173</u>	<u>31,526</u>
	<u><u>74,202</u></u>	<u><u>70,042</u></u>

Note: As at 30 June 2017, the fair value of the investments in associates which are listed entities was RMB106,067 million (31 December 2016: RMB68,565 million).

Movement of investments in associates is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'Million	RMB'Million
At beginning of period	70,042	60,171
Additions (a)	5,234	3,878
Deemed disposal gains	2,400	1,926
Share of profit/(losses)	97	(1,385)
Share of other comprehensive income	177	285
Dividends	(4)	(87)
Disposals and transfers	186	(118)
Impairment provision (b)	(790)	(1,678)
Currency translation differences	<u>(3,140)</u>	<u>1,100</u>
At end of period	<u><u>74,202</u></u>	<u><u>64,092</u></u>

Note:

- (a) The Group acquired certain associates and made additional investments in existing associates with an aggregate amount of RMB5,234 million during the six months ended 30 June 2017.
- (b) During the six months ended 30 June 2017, the Group made an aggregate impairment provision of RMB790 million against the carrying amounts of certain investments in associates. The impairment loss mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

9 Investments in redeemable instruments of associates

During the six months ended 30 June 2017, the Group made aggregate investments in redeemable instruments of associates, including certain additional investments in existing investees of the Group, of RMB15,220 million (six months ended 30 June 2016: RMB1,970 million).

During the six months ended 30 June 2017, the Group also made an aggregate impairment provision of approximately RMB560 million (six months ended 30 June 2016: RMB123 million) against the carrying amounts of certain investments in redeemable instruments of associates based on the impairment assessment performed with reference to the business performances and recoverable amounts of these investee companies.

10 Available-for-sale financial assets

	Unaudited 30 June 2017 RMB'Million	Audited 31 December 2016 RMB'Million
Equity investments in listed entities	39,719	20,477
Equity investments in unlisted entities	65,732	62,580
Others	<u>1,666</u>	<u>749</u>
	<u>107,117</u>	<u>83,806</u>

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

	Unaudited Six months ended 30 June 2017 RMB'Million	2016 RMB'Million
At beginning of period	83,806	44,339
Additions ((a) and (b))	12,861	7,220
Disposals and transfers	(4,118)	(8)
Changes in fair value (c)	17,445	3,063
Impairment provision (d)	(596)	(690)
Currency translation differences	<u>(2,281)</u>	<u>903</u>
At end of period	<u>107,117</u>	<u>54,827</u>

Note:

- (a) During the six months ended 30 June 2017, the Group made additional investments of approximately USD1,183 million (equivalent to approximately RMB8,191 million) in an existing available-for-sale financial asset, which is a listed company in the United States principally engaged in the development and sales of electric vehicles, sustainable energy generation and storage equipment. As at 30 June 2017, the Group's equity interest in this investee accounted for approximately 5% of its total issued common stock.
- (b) During the six months ended 30 June 2017, the Group made certain new investments and additional investments with an aggregate amount of approximately RMB4,670 million in listed and unlisted entities mainly operated in the United States and the PRC. These companies are principally engaged in entertainment, technology, O2O and other Internet-related services.
- (c) Fair value gains of RMB17,445 million (six months ended 30 June 2016: RMB3,063 million) were recognised in other comprehensive income during the six months ended 30 June 2017 as a result of the changes in fair value of the available-for-sale financial assets.
- (d) The Group made an aggregate impairment provision of RMB596 million (six months ended 30 June 2016: RMB690 million) against the carrying amounts of certain available-for-sale financial assets during the six months ended 30 June 2017, with reference to their assessed fair values as at 30 June 2017.

11 Accounts receivable

Accounts receivable and their ageing analysis, based on recognition date, are as follows:

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'Million	RMB'Million
0 - 30 days	5,902	3,260
31 - 60 days	4,578	4,019
61 - 90 days	2,150	1,294
Over 90 days	1,818	1,579
	<u>14,448</u>	<u>10,152</u>

Receivable balances as at 30 June 2017 and 31 December 2016 mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators.

Some online advertising customers and agencies are granted with a credit period of 90 days after full execution of the contracted advertisement orders. Third party platform providers and telecommunication operators usually settle the amounts due by them within 60 days and a period of 30 to 120 days, respectively.

12 Share option and share award schemes

(a) Share option schemes

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the 2017 Option Scheme.

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II expired on 31 December 2011, 23 March 2014 and 16 May 2017, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes.

In respect of the Post-IPO Option Scheme III and the 2017 Option Scheme, the Board may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The exercise price must be in compliance with the requirement under the Listing Rules. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 10-year period for the Post-IPO Option Scheme III and a 7-year period for the 2017 Option Scheme after the date of grant of option.

No share options under the 2017 Option Scheme were granted during the six months ended 30 June 2017. Movements in the number of share options outstanding of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III for the six months ended 30 June 2017 and 2016 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 2017	HKD120.95	31,247,436	HKD31.70	2,500,000	33,747,436
Granted	HKD225.44	28,526,215	—	—	28,526,215
Exercised	HKD34.84	(2,718,805)	—	—	(2,718,805)
Lapsed	HKD116.62	<u>(75,220)</u>	—	<u>—</u>	<u>(75,220)</u>
At 30 June 2017	HKD177.38	<u>56,979,626</u>	HKD31.70	<u>2,500,000</u>	<u>59,479,626</u>
Exercisable as at 30 June 2017	HKD114.53	<u>13,108,559</u>	HKD31.70	<u>1,250,000</u>	<u>14,358,559</u>
At 1 January 2016	HKD80.59	25,697,305	HKD31.70	5,000,000	30,697,305
Granted	HKD158.10	10,425,000	—	—	10,425,000
Exercised	HKD26.62	(2,406,012)	HKD31.70	(2,500,000)	(4,906,012)
Lapsed	HKD26.08	<u>(48,800)</u>	—	<u>—</u>	<u>(48,800)</u>
At 30 June 2016	HKD108.53	<u>33,667,493</u>	HKD31.70	<u>2,500,000</u>	<u>36,167,493</u>
Exercisable as at 30 June 2016	HKD75.13	<u>10,620,554</u>	—	<u>—</u>	<u>10,620,554</u>

During the six months ended 30 June 2017, 5,250,000 options were granted to one director of the Company (six months ended 30 June 2016: 3,750,000 options were granted to one director of the Company).

(b) Share award schemes

The Company has adopted the Share Award Schemes as of 30 June 2017, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the six months ended 30 June 2017 and 2016 are as follows:

	No. of awarded shares
At 1 January 2017	86,365,812
Granted	4,555,895
Lapsed	(1,622,414)
Vested and transferred	<u>(11,131,651)</u>
At 30 June 2017	<u>78,167,642</u>
Vested but not transferred as at 30 June 2017	<u>193,648</u>
At 1 January 2016	91,786,907
Granted	25,984,856
Lapsed	(1,773,912)
Vested and transferred	<u>(24,714,206)</u>
At 30 June 2016	<u>91,283,645</u>
Vested but not transferred as at 30 June 2016	<u>—</u>

During the six months ended 30 June 2017, 60,000 awarded shares were granted to four independent non-executive directors of the Company (six months ended 30 June 2016: 50,000 awarded shares were granted to three independent non-executive directors of the Company).

13 Accounts payable

Accounts payable and their ageing analysis, based on recognition date, are as follows:

	Unaudited 30 June 2017 RMB'Million	Audited 31 December 2016 RMB'Million
0 - 30 days	24,955	20,815
31 - 60 days	4,545	2,740
61 - 90 days	2,396	1,495
Over 90 days	<u>5,086</u>	<u>2,363</u>
	<u>36,982</u>	<u>27,413</u>

14 Borrowings

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	65,041	57,549
Non-current portion of long-term RMB bank borrowings, unsecured (a)	4,078	—
Non-current portion of long-term HKD bank borrowings, unsecured (a)	866	—
Non-current portion of long-term RMB bank borrowings, secured (a)	475	—
	<u>70,460</u>	<u>57,549</u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	5,420	12,139
HKD bank borrowings, unsecured (b)	5,337	—
Current portion of long-term USD bank borrowings, unsecured (a)	—	139
Current portion of long-term RMB bank borrowings, unsecured (a)	22	—
	<u>10,779</u>	<u>12,278</u>
	<u>81,239</u>	<u>69,827</u>

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD9,601 million (31 December 2016: USD8,316 million), RMB4,575 million (31 December 2016: Nil) and HKD1,000 million (31 December 2016: Nil), respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.70% to 1.51% or an interest rate of 1.875% to 4.275% (31 December 2016: LIBOR plus 0.85% to 1.35% or an interest rate of 1.875%) per annum.
- (b) The aggregate principal amounts of short-term USD bank borrowings and short-term HKD bank borrowings were USD800 million (31 December 2016: USD1,750 million) and HKD6,160 million (31 December 2016: Nil), respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.50% to 0.75% (31 December 2016: LIBOR plus 0.70% to 0.75%) per annum.

15 Notes payable

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	27,661	32,461
Non-current portion of long-term HKD notes payable	<u>3,633</u>	<u>3,743</u>
	<u>31,294</u>	<u>36,204</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	<u>4,059</u>	<u>3,466</u>
	<u>35,353</u>	<u>39,670</u>

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD4,700 million (31 December 2016: USD5,200 million) and HKD4,200 million (31 December 2016: HKD4,200 million), respectively. The interest rate range of the notes payable is from 2.30% to 4.70% (31 December 2016: 2.00% to 4.70%) per annum.

All of these notes payable issued by the Group were unsecured.

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 six months ended 30 June 2017.

Employee and Remuneration Policies

As at 30 June 2017, the Group had 40,678 employees (30 June 2016: 31,557). 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 six months ended 30 June 2017 was RMB16,017 million (for the six months ended 30 June 2016: RMB10,205 million).

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three and six months ended 30 June 2017. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Compliance with the Corporate Governance Code

Save as disclosed in the corporate governance report in the 2016 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 code provisions as set out in the CG Code during the period from 1 January 2017 to 30 June 2017.

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 take this opportunity to express our gratitude to all our staff and the management team for their unwavering teamwork, dedication and contribution. I would also like to thank all our shareholders and stakeholders for their continued trust and support. Looking ahead, we will continue to leverage our innovation capabilities to develop diversified products and services on our platforms for enriching our users' lives.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 16 August 2017

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
“2017 AGM”	the annual general meeting of the Company held on 17 May 2017
“2017 Option Scheme”	the share option scheme of the Company adopted on 17 May 2017
“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 as set out in Appendix 14 to the Listing Rules
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“DAU”	daily active user accounts
“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
“HIBOR”	Hong Kong InterBank Offered Rate
“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
“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
“MOBA”	Multiplayer Online Battle Arena
“Netmarble”	Netmarble Games Corporation, a company incorporated under the laws of Korea and the shares of which are listed on the Korea Exchange
“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
“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
“Tencent Charity Fund”	a charity fund established by the Group
“TMT”	Technology, Media and Telecommunications
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services