

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the accompanying offering circular and supplement thereto following this page (the “**Offering Circular**”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”)) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers (“**QIBs**”) (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S) outside the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you will be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons and that the electronic mail address that you gave us and to which the Offering Circular has been delivered is not located in the United States and (2) you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Deutsche Bank AG, Singapore Branch (the “**Arranger**”), any Dealer (as defined in the Offering Circular), any person who controls any Arranger or Dealer, any director, officer, employee or agent of the Issuer or the Arranger or any Dealer, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arranger or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**SUPPLEMENT dated 2 February 2015
TO THE OFFERING CIRCULAR
dated 10 April 2014**

CONFIDENTIAL

Tencent 腾讯
TENCENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

U.S.\$5,000,000,000
Global Medium Term Note Programme

This supplement (the “**Supplement**”) to the accompanying Offering Circular dated 10 April 2014 (the “**Offering Circular**” and, as amended and supplemented by this Supplement, the “**Amended Offering Circular**”) relating to the US\$5,000,000,000 Global Medium Term Note Program (the “**Programme**”) by Tencent Holdings Limited (the “**Issuer**” and the “**Company**”), amends and supplements, and must be read in conjunction with, the accompanying Offering Circular. If the description between this Supplement and the accompanying Offering Circular varies, you should rely on the information in this Supplement. Capitalized terms used but not otherwise defined in this Supplement shall have the meanings ascribed to them in the accompanying Offering Circular.

This Supplement contains important information. You should read this Supplement carefully in conjunction with the accompanying Offering Circular, and any further amendment or supplement thereto, before making any investment decision.

The Programme, and the notes that may be issued from time to time thereunder (the “**Notes**”), are more fully described in the Amended Offering Circular.

This Supplement is subject to the restrictions and limitations on distribution and other matters set forth in the accompanying Offering Circular as though such restrictions and limitations were set forth in full in this Supplement.

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons. Accordingly, the Notes may be offered and sold (i) in the United States (as defined in Regulation S) in registered form only to QIBs in transactions exempt from registration under the Securities Act and/or (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. The applicable Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See “*Subscription and Sale*” and the applicable Pricing Supplement. Bearer Notes are subject to U.S. tax requirements.

Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc. (“**S&P**”) has assigned a rating of “A-” to the Programme and Moody’s Investors Service, Inc. (“**Moody’s**”) has assigned a rating of “A3” to the Programme. The rating is only correct as at the date of this Supplement. Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at anytime by the assigning rating agency. Each of S&P and Moody’s is a licensed corporation under the Hong Kong Securities and Futures Ordinance (“**SFO**”) to conduct type 10 (providing credit rating services) regulated activities as defined under the SFO.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. See “Risk Factors” beginning on page 20 of the accompanying Offering Circular and page S-13 of the Supplement for a discussion of factors that you should consider carefully before investing in the Notes.

Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Supplement.

This Supplement includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK for the purpose of giving information with regard to the Issuer and the Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading in any material respect.

Joint Global Coordinators

Deutsche Bank

Barclays

Goldman Sachs

Joint Bookrunners

Deutsche Bank

Barclays

Goldman Sachs

J.P. Morgan

ANZ

**Bank of China
(Hong Kong)**

BofA Merrill Lynch

**China Merchants
Securities (HK)**

Citigroup

Credit Suisse

Tencent Holdings Limited (the “**Issuer**” and the “**Company**”) having made all reasonable enquiries confirms that to its best knowledge and belief (i) this Amended Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Issuer, the Group and the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Amended Offering Circular misleading in any material respect; and (iii) the statements of intention, opinion and belief or expectation contained in this Amended Offering Circular with regard to the Issuer and the Group are honestly made or held.

Each Series (as defined herein) of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” as amended and/or supplemented by the Pricing Supplement specific to such Series. This Supplement must be read and construed together with the Offering Circular and any further amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Amended Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Amended Offering Circular comes are required by the Issuer and Deutsche Bank AG, Singapore Branch (the “**Arranger**”) to inform themselves about and to observe any such restrictions. None of the Issuer, the Arranger or Deutsche Bank AG, Singapore Branch, Barclays Bank PLC, Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities plc, Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, China Merchants Securities (HK) Co., Limited, Citigroup Global Markets Inc., Credit Suisse Securities (Europe) Limited and Merrill Lynch International (the “**Dealers**”) represents that this Amended Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or the Dealers, which would permit a public offering of any Notes or distribution of this Amended Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Amended Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the PRC, Hong Kong, Japan, the Cayman Islands and Singapore, and to persons connected therewith.

The Notes may be offered or sold (i) in the United States only to QIBs and only in registered form, and/or (ii) outside the United States, to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. Any additional restrictions on the sale or transfer of any Series of Notes will be specified in the applicable Pricing Supplement for such Notes.

If Notes in registered form are being offered or sold to U.S. persons or in the United States, prospective investors are hereby notified that sellers of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Arranger and the Dealers, through their respective selling agents, may arrange for the offer and

resale of such Notes to U.S. persons or persons in the United States who are QIBs in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Amended Offering Circular, see “*Subscription and Sale*”.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Amended Offering Circular. Any representation to the contrary is a criminal offence in the United States.

This Amended Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Amended Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Arranger or any Dealer.

Neither the delivery of this Amended Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Amended Offering Circular is true subsequent to the date hereof or the date upon which this Amended Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Amended Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Amended Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arranger, the Dealers, the Agents or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Amended Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Amended Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.\$5,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under “*Subscription and Sale*”.

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes.

None of the Arranger, the Dealers, the Trustee or any Agents has separately verified the information contained in this Amended Offering Circular. To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Amended Offering Circular. To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Amended Offering Circular or for any other statement made or purported to be made by the Arranger, the Dealers, the Trustee, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Notes or the issue and offering of the Notes. The Arranger, the Dealers, Trustee and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Amended Offering Circular or any such statement.

This Amended Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Amended Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Amended Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger, the Dealers, the Trustee or the Agents or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Amended Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Amended Offering Circular and its purchase of Notes should be based upon such investigation, as it deems necessary. None of the Arranger, the Dealers, the Trustee or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Amended Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger, the Dealers, the Trustee, the Agents or any of them.

In this Amended Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Amended Offering Circular, unless otherwise specified or the context otherwise requires, all references to “US\$”, “USD” and to “U.S. dollars” are to United States dollars; all references to “HK\$”, “HKD” and to “H.K. dollars” are to Hong Kong dollars; all references to “euro” and “€” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro as amended; all references to “yen” are to Japanese yen; all references to “Renminbi”, “CNH”, “RMB” and “CNY” are to the currency of the PRC; all references to “United States” or “U.S.” are to the United States of America; references to “China”, “Mainland China” and the “PRC” in this Amended Offering Circular mean the People’s Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; references to “PRC Government” mean the government of the PRC; references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China; references to “Macau” are to the Macao Special Administrative Region of the People’s Republic of China; and all references to “United Kingdom” are to the United Kingdom of Great Britain and Northern Ireland.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this Amended Offering Circular were made at a rate of RMB6.1380 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on 30 September 2014. We make no representation that any U.S. dollar, Renminbi, or H.K. dollar amounts could have been, or could be, converted into U.S. dollars, Renminbi or H.K. dollars, as the case may be, at any particular rate, at the rates stated above, or at all.

ABOUT THIS SUPPLEMENT AND THE ACCOMPANYING OFFERING CIRCULAR

This document is in two parts. The first part is this Supplement, which amends and supplements, and must be read in conjunction with, the accompanying Offering Circular. The second part is the accompanying Offering Circular dated 10 April 2014. The accompanying Offering Circular contains a description of the Programme and the Notes that may be issued from time to time thereunder and gives more general information, some of which may not apply to this offering. If the description between this Supplement and the accompanying Offering Circular varies, you should rely on the information in this Supplement.

The Company hereby amends and supplements the accompanying Offering Circular as further described in this Supplement. All location references, such as references to sections or page numbers, are to items as they appear in the accompanying Offering Circular.

INFORMATION INCORPORATED BY REFERENCE

This Amended Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the unaudited financial statements of the Issuer as of and for the three months ended 31 March 2014 and as of and for the three and six months ended 30 June 2014 published on the SEHK, and all amendments and supplements from time to time to this Amended Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Amended Offering Circular and which shall be deemed to modify or supersede the contents of this Amended Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Amended Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the office of the Issuer at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman,

KY1-1111, Cayman Islands and at the specified offices of the Paying Agents and the principal office in Hong Kong of the Principal Paying Agent (as defined under “*Summary of the Programme*”) (or such other Paying Agent for the time being in Hong Kong) set out at the end of this Amended Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

The financial information as at and for the years ended 31 December 2011, 2012 and 2013 included in this Amended Offering Circular has been derived from the Group’s audited consolidated financial statements. The financial information as at and for the three months ended 31 March 2013 and 2014, the three months and the six months ended 30 June 2013 and 2014 and the three months and the nine months ended 30 September 2013 and 2014 included in this Amended Offering Circular has been derived from the Group’s unaudited consolidated financial statements.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

For so long as any of the outstanding Notes are represented by one or more Restricted Global Note Certificates and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which the Issuer is neither subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the “**Exchange Act**”) nor exempt from the reporting requirements of the Exchange Act under Rule 12g3-2(b) thereunder, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owners or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of the Cayman Islands. Most of its directors and officers reside outside the United States (principally in the PRC). A substantial portion of the Issuer’s assets and the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons, or to enforce against the Issuer or such persons judgements obtained in United States courts, including judgements predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by its PRC counsel, Jun He Law Offices, that there is uncertainty as to whether the courts of the PRC would (1) enforce judgements of the U.S. courts obtained against the Issuer or its directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (2) entertain original actions brought in the courts of the PRC against the Issuer or its directors and officers predicated upon these civil liabilities provisions.

FORWARD-LOOKING STATEMENTS

Certain statements in this Amended Offering Circular may constitute “*forward-looking statements*”. The words including “believe”, “expect”, “plan”, “anticipate”, “schedule”, “estimate”, “aim”, “intend”, “project”, “seek to”, “predict”, “future”, “goal” and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Amended Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer or the Group and the plans and objectives of the management of the Issuer and the Group for its future operations (including development plans and objectives relating to the Group’s operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results or performance of the Issuer or the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer’s and the Group’s present and future business strategies of the Issuer and the Group and the environment in which the Issuer or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer’s or the Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Amended Offering Circular discloses, under “*Risk Factors*” and elsewhere, important factors that could cause actual results to differ materially from the Issuer’s expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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SUMMARY OF THE ISSUER

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Amended Offering Circular, including “Risk Factors”, “Management’s Discussion and Analysis of Results of Operations” and our consolidated financial statements and related notes thereto, before making an investment decision.

OUR BUSINESS

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country in terms of daily user reach in September 2014, according to iResearch. Our IM communities include QQ, a cross-platform communication platform, with total MAU of 819.8 million and smart devices MAU of 542.2 million, and Weixin and WeChat, mobile-based communication platform, with combined MAU of 468.1 million as of 30 September 2014. Our IM communities are the most engaged in the PRC with QQ users accounting for 90.4% of monthly time spent on PC IM services, and Mobile QQ and Weixin accounting for 76.5% and 86.1% of monthly active users respectively for Mobile IM services, in September 2014, according to iResearch.

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

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

- **Value-added Services** — Our VAS business mainly consists of online games and social networks services. We offer a diversified game portfolio ranging from PC client games including MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including Qzone and premium services for QQ community. We monetise our VAS business primarily via monthly subscriptions and item-based sales on our SNS platforms and within PC and mobile games or other applications.
- **Online Advertising** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are primarily sold through GuangDianTong, or GDT, a self-service real-time bidding performance advertising platform, and delivered primarily on our SNS platforms and other platforms.
- **eCommerce Transactions** — Our eCommerce transactions business involves B2C eCommerce transaction, sales of merchandise and services on our marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce. We divested our B2C and C2C eCommerce marketplaces due to our strategic transaction with JD.com in March 2014.

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

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

We commenced our business in November 1998 and went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2013, our total revenues was RMB60,437 million and our profit for the year was RMB15,563 million, an increase of 38% and 22%, respectively, over the year ended 31 December 2012. For the nine months ended 30 September 2014, our total revenues was RMB57,954 million (US\$9,442 million) and our profit for the period was RMB17,934 million (US\$2,922 million), an increase of 33% and 54%, respectively, over the nine months ended 30 September 2013. As of 30 September 2014, our cash and cash equivalents and term deposits amounted to RMB55,580 million (US\$9,054 million).

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

Large and Highly Engaged User Base on PC and Mobile with Strong Network Effect

We operate the largest IM community in the PRC with 819.8 million MAU of QQ as of 30 September 2014. For the three months ended 30 September 2014, we recorded 216.5 million PCU of QQ, up from 180.3 million for the three months ended 31 December 2013. On mobile, we operate three of the top five social platforms in the world as of 3 November 2014 according to We Are Social, a social media agency, with 542.2 million MAU of Mobile QQ on smart devices, 506.3 million MAU of Mobile Qzone on smart devices and 468.1 million combined MAU for Weixin and WeChat as of 30 September 2014. Mobile payment user base expanded over 10 times following the launch of Weixin Payment in August 2013 and QQ Wallet in January 2014. Our large and highly engaged user base creates a strong network effect for our users to interact with one another through IM and our other applications and value-added services, which in turn enables us to retain our existing users and attract new users. In addition, our large user base provides us with the opportunity to market and deliver our value-added services and products. We believe that our large and active user base creates a high barrier to entry, as it is challenging for our competitors to build a similar critical mass of users for their products and services.

Successful Monetisation through Diversified Products and Services

We continuously develop innovative services to expand and enrich the experience of our users and enhance their loyalty to our online communities. To fulfil our users' online lifestyle needs, we offer a wide range of value-added services, such as social networks, digital content, online games and eCommerce services. Our diverse offering of products and services, combined with our large user base, offers us significant monetisation opportunities and enables us to diversify our revenue streams. We generate value-added services revenues from user subscriptions and item-based sales. We have monetised user traffic generated from our IM clients, SNS, video, portals and other platforms through online advertising. By continuing to develop new products and services to meet the rapidly evolving needs of the increasingly sophisticated Internet users, we expect that we will be able to generate additional revenue from new services.

Significant Market Leadership in Multiple Service Areas

We have a strong presence for all of our key products and services, including IM, SNS, online games and online advertising. We believe our leading position is underpinned by our in-depth understanding of the needs of our users and the trends in the market, as well as our strong research and development capability.

- *IM* — We are the leading IM provider in the PRC with QQ having a market share of 90.4% as measured by monthly time spent by users for PC IM services, while Mobile QQ and Weixin have a penetration rate of 76.5% and 86.1% respectively for Mobile IM services as measured by monthly active users in September 2014, according to iResearch.
- *SNS* — We are the leading SNS provider in the PRC with Qzone having a market share of 99.6% on PC and 70.8% on mobile in the PRC as measured by monthly time spent by users on social networking services in September 2014, according to iResearch.
- *Online games* — We are the largest online game operator and game developer in the PRC with a market share of 41.5% for PC online games and 38.8% for mobile games as measured by revenue for the three months ended 30 September 2014, according to iResearch. We operate seven and five of the top ten most popular PC online game titles and mobile game titles respectively in the PRC, according to Baidu online games search ranking as of 31 December 2014. We operate some of the most popular PC online game titles in China, including *Cross Fire*, *QQ Dancer*, *Dungeon and Fighter*, *League of Legends* and *QQ Speed*, each of which had over 1 million PCU in each of the last four quarters ended 30 September 2014. We also operate some of the most popular mobile game titles in China, including *San Guo Zhi Ren*, *Thunder Fighter*, *Timi Run Everyday*, and *Xian Jian Qi Xia Zhuan*, each of which had reached the No. 1 spot on the iOS Top Free Games and Top Grossing Games ranking in China.
- *Online advertising* — We operate portals and mobile applications in the PRC that are go-to-destinations for news and video content. Tencent Video is a leading online video platform for both PC and mobile in the PRC in terms of monthly unique visitors in September 2014, according to iResearch. We also operate the QQ.com portal, which had 148.3 million daily average unique visitors in September 2014 and ranked first among all online portals in the PRC and ninth among websites in the world in terms of user traffic as of September 2014, according to Alexa.com. Our mobile application, Tencent News, was the largest mobile news platform in the PRC in terms of monthly active users in September 2014, according to Analysys, a third party information service platform. We sell brand display advertisements on online video, IM clients, QQ.com and other platforms. Utilising our self-service real-time bidding performance advertising platform, GDT, we also offer performance display advertising solutions on our SNS platforms and other platforms. We had over 1,000 brand display advertisers for our online advertising platforms as of the end of the third quarter of 2014.

Highly Cash Generative Consumer-oriented Business Model

We have consistently generated healthy cash flows from our operations and maintained positive operating cash flows since 2001, even during the past economic downturns, including the global economic slowdown that began in the second half of 2008. A significant majority of our revenue is derived from micro-transactions or subscription revenue generated by our massive user base. We price most of our products and services at an affordable level for the average Internet user, making our earnings and cash flows more resilient to economic cycles. Consequently, our business is generally less affected by global economic slowdowns and domestic macro-tightening measures. We bill and collect a majority of our revenue through prepaid channels, including online banking, our e-sales

system and prepaid Q-Coin cards, which minimises our working capital needs and achieves a high cash flow conversion ratio. In addition, our Internet-based business model demonstrates significant operational scalability and requires low capital expenditures. As of 30 September 2014, our cash and cash equivalents and term deposits amounted to RMB55,580 million (US\$9,054 million).

Stable and Proven Management Team

We have a stable and capable senior management team with extensive operating experience in the PRC Internet and telecommunications industries as well as strong capabilities in developing and executing innovative business strategies. Besides core founders, we have recruited senior management talent from leading global firms, such as Lau Chi Ping Martin, our President and James Gordon Mitchell, our Chief Strategy Officer. We also have competitive training and career development plans in place to continuously build our own teams. The collective experience of our management team brings together a mix of local and international experience, industry knowledge and complementary skill sets which have allowed us to smoothly transition to a large scale, professionally managed company since our IPO. We believe our committed and experienced management team will continue to lead us to further success.

OUR STRATEGIES

Our strategic objective is to strengthen our market leading position and become the hub for fulfilling Internet users' online lifestyle needs. We will undertake strategic initiatives focused on expanding our market shares, diversifying our services and products and sustaining our growth and profitability. In particular, we will seek to:

Further Expand Our User Base and Increase User Engagement

We believe the size of our user base and depth of user engagement in our online communities are our critical competitive advantages. We plan to further expand our user base and increase user engagement by enhancing user experience and broadening our products and services. For example, to capture the increasing integration between the PC and mobile Internet, we have been enhancing the functions and features on our Mobile QQ and Weixin, which integrate value-added services such as online games, news and local services. Such enhancements will further enable us to expand our user base and to deepen user engagement in China and the overseas market.

Further Monetise Our User Base and User Traffic

We seek to broaden and enhance our fee-based value-added services, and promote user subscriptions and item-based sales to increase paying user conversion rate. We are investing to enhance the overall competitiveness of our online advertising platform and online payment infrastructure, and are exploring the synergies between SNS and our other services.

Capture the Emerging Mobile Internet Trend

We are a leading provider of mobile applications which cover a range of categories, including communication, social networks, news, games, video, music, browser and security solutions. As our users demand more mobility and real-time information, we will continue to introduce a growing number of services and applications across a broader range of Internet-enabled mobile devices. We also intend to develop products and services that cater to the needs of smart phone users.

Pursue an Open Platform Strategy That Promotes Innovation and Collaboration

We pursue an open platform strategy and seek to increasingly collaborate with third-party developers and industry partners to further enrich the applications offered on our open platforms, including Qzone, QQ Game Platform and YingYongBao, thus increasing social sharing and interaction among our users. We are extending this open platform strategy from PC to mobile through YingYongBao, an application store for games and other applications. YingYongBao was ranked No. 3 in China in terms of number of application downloads per day by users as of the third quarter of 2014, according to Analysys. By offering a large number of quality third-party and in-house applications, we endeavour to promote innovation within our open platforms, which we expect will ultimately enhance the value of our open platforms as a whole. Our open platforms are among the leading platforms of their kind in China with more than 3 million registered third party applications on the platforms as of 31 August 2014. More than 70% of the newly-registered developers during the twelve months ended 31 May 2014 are developers of mobile applications.

Pursue Partnerships to Enhance Our Business Portfolio, Secure Proprietary Content, Expand O2O Offering and Grow International Presence

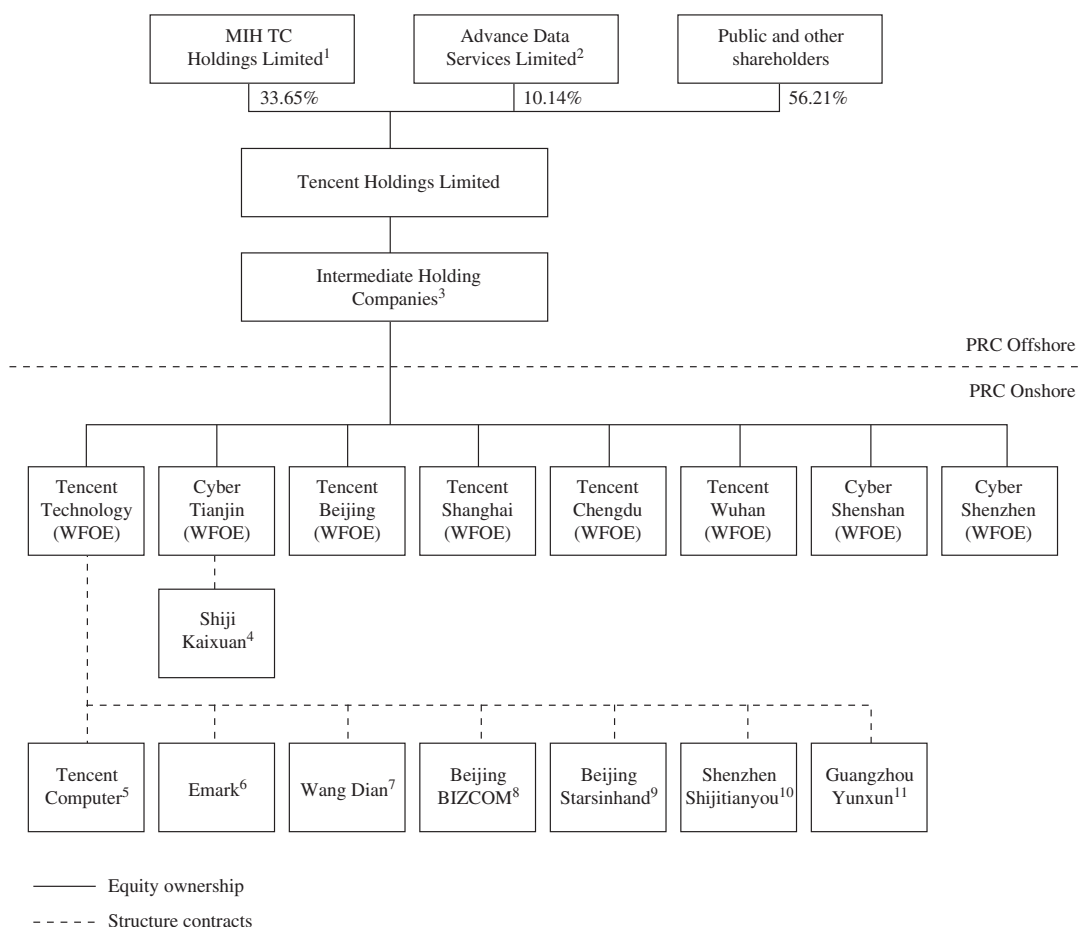
We have entered into partnerships with content providers and vertical category leaders in the PRC, United States, South Korea and emerging markets such as Russia, Brazil, India and Southeast Asia. Our partnerships with game developers, film studios and record labels help us secure valuable intellectual properties, applications and media content to build content offerings on our platforms, differentiate our services from the competition and support business growth. We have also been establishing co-operation opportunities with vertical category leaders in areas including, but not limited to, eCommerce, local services and healthcare to expand O2O services on our platform, as well as leveraging our technical and operational know-how to deliver quality Internet and mobile applications and services to users in international markets. We selectively invest in some of our partners to further deepen our relationship with them. We intend to continue pursuing these opportunities that will strengthen our position as the hub for fulfilling people's online lifestyle needs.

RECENT DEVELOPMENTS

On 21 October 2014, we issued the 2.90% Senior Notes in an aggregate principal amount of HK\$1,200 million (the “**April 2020 Notes**”) for general corporate purposes under the Programme. The April 2020 Notes were issued at 100.0% of the aggregate principal amount. Interest on the April 2020 Notes will be payable annually in arrear on 21 October of each year. The April 2020 Notes will mature on 21 April 2020. The April 2020 Notes are constituted by, are subject to and have the benefit of a trust deed dated 10 April 2014 in connection with the Programme. The terms and conditions applicable to the April 2020 Notes are set forth in the relevant pricing supplement.

OUR CORPORATE STRUCTURE

The following diagram illustrates our principal corporate and share ownership structure as of 30 September 2014.



Notes:

- (1) MIH TC Holdings Limited is controlled by Naspers Limited through its wholly owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited.
- (2) Wholly owned by Mr. Ma Huateng.
- (3) Intermediate Holding Companies include various Group companies established for the purpose of holding interests in various WFOEs as well as other investments of the Group.
- (4) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (5) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (6) Emark: Beijing Emark Information and Technology Co. Ltd. 北京驛碼神通信息技術有限公司.
- (7) Wang Dian: Nanjing Wang Dian Technology Company Limited 南京網典科技有限公司.
- (8) Beijing BIZCOM: Beijing BIZCOM Technology Company Limited 北京英克必成科技有限公司.
- (9) Beijing Starsinhand: Beijing Starsinhand Technology Company Limited 北京市掌中星天下信息技術有限公司.
- (10) Shenzhen Shijitianyou: Shenzhen Shiji Tianyou Technology Company Limited 深圳市世紀天游科技有限公司.
- (11) Guangzhou Yunxun: Guangzhou Yunxun Technology Company Limited 廣州雲訊信息科技有限公司.

GENERAL INFORMATION

The Company was incorporated in the BVI on 23 November 1999 as an international business company with limited liability, with a registration number of 353466. The Company was registered by way of continuation in the Cayman Islands on 27 February 2004 as an exempted company with limited liability under the Companies Law. On 16 June 2004, the Company publicly offered its shares for listing on the Main Board of the SEHK under stock code 00700. It became one of the then 43 constituents of the Hang Seng Index on 10 June 2008. Its principal place of business in the PRC is located at Tencent Building, Kejizhongyi Avenue, Hi-tech Park, Nanshan District, Shenzhen, 518057, the PRC. Its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Our website is *www.tencent.com*. Information contained on our website does not constitute part of this Amended Offering Circular.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

The summary consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 have been derived from the Company's audited consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 included elsewhere in this Amended Offering Circular. The summary condensed consolidated financial statements as of and for the nine months ended 30 September 2013 and 2014 have been derived from the Company's unaudited condensed consolidated interim financial statements as of and for the nine months ended 30 September 2014 included elsewhere in this Amended Offering Circular.

The summary financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and the unaudited condensed consolidated interim financial statement included elsewhere or incorporated by reference in this Amended Offering Circular. The financial and operating information for the year ended 31 December 2013 and for the nine months ended 30 September 2014 is not necessarily indicative of the results that may be expected for the year ended 31 December 2014.

**SUMMARY CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED
 31 DECEMBER 2011, 2012 AND 2013 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER
 2013 AND 2014**

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (RMB in millions) (US\$ in millions)	
Revenues:						
VAS ⁽¹⁾	26,314	35,718	44,985	33,053	46,173	7,522
Online advertising	1,992	3,382	5,034	3,537	5,681	926
eCommerce transactions ⁽²⁾	—	4,428	9,796	6,472	4,307	702
Others	190	366	622	405	1,793	292
Total revenues	28,496	43,894	60,437	43,467	57,954	9,442
Cost of revenues	(9,928)	(18,207)	(27,778)	(19,580)	(22,541)	(3,673)
Gross profit	18,568	25,687	32,659	23,887	35,413	5,769
Interest income	469	836	1,314	937	1,233	201
Other gains/(losses), net	421	(284)	904	499	2,416	394
Selling and marketing expenses	(1,921)	(2,994)	(5,695)	(3,662)	(5,734)	(934)
General and administrative expenses	(5,283)	(7,766)	(9,988)	(7,218)	(10,180)	(1,659)
Operating profit	12,254	15,479	19,194	14,443	23,148	3,771
Finance income/(costs), net	36	(348)	(84)	(90)	(909)	(148)
Share of (losses)/profits of associates and joint ventures	(191)	(80)	171	189	(72)	(12)
Profit before income tax	12,099	15,051	19,281	14,542	22,167	3,611
Income tax expense	(1,874)	(2,266)	(3,718)	(2,910)	(4,233)	(689)
Profit for the year/period	10,225	12,785	15,563	11,632	17,934	2,922

Notes:

- On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenue was generated from eCommerce transactions in the periods prior to 1 January 2012.

**SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF
31 DECEMBER 2011, 2012 AND 2013 AND AS OF 30 SEPTEMBER 2014**

	As of 31 December			As of 30 September	
	2011	2012	2013	2014	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in (US\$ in millions) (US\$ in millions)	
Cash and cash equivalents	12,612	13,383	20,228	33,454	5,450
Restricted cash ⁽¹⁾	4,943	2,520	4,131	6,696	1,091
Term deposits	13,716	13,806	19,623	17,195	2,801
Total current assets	35,503	36,509	53,686	69,452	11,315
Term deposits	—	10,892	11,420	4,931	803
Total non-current assets	21,301	38,747	53,549	86,443	14,083
Total assets	56,804	75,256	107,235	155,895	25,398
Notes payable	—	—	—	1,843	300
Borrowings	7,999	1,077	2,589	2,710	442
Total current liabilities	21,183	20,665	33,267	43,577	7,100
Notes payable	3,733	7,517	9,141	24,207	3,944
Borrowings	—	2,106	3,323	5,537	902
Total non-current liabilities	6,533	12,443	15,505	36,924	6,016
Total liabilities	27,716	33,108	48,772	80,501	13,115
Total equity	29,088	42,148	58,463	75,394	12,283
Total liabilities and equity	56,804	75,256	107,235	155,895	25,398

Note:

- (1) Includes, among others, restricted cash pledged for secured bank borrowings which amounted to RMB3,072 million, Nil, Nil and Nil as of 31 December 2011, 2012, 2013 and as of 30 September 2014, respectively.

**SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31
DECEMBER 2011, 2012 AND 2013 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER
2013 AND 2014**

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (RMB in (US\$ in millions) (US\$ in millions)	
Net cash flows generated from operating activities	13,358	19,429	24,374	17,510	22,032	3,589
Net cash flows used in investing activities ⁽¹⁾	(15,355)	(16,270)	(19,134)	(13,984)	(25,623)	(4,174)
Net cash flows generated from/(used in) financing activities ⁽²⁾	4,373	(2,386)	1,708	1,852	16,937	2,759
Net increase in cash and cash equivalents	2,376	773	6,948	5,378	13,346	2,174
Cash and cash equivalents at beginning of year/period	10,408	12,612	13,383	13,383	20,228	3,296
Exchange losses on cash and cash equivalents	(172)	(2)	(103)	(158)	(120)	(20)
Cash and cash equivalents at end of year/period	<u>12,612</u>	<u>13,383</u>	<u>20,228</u>	<u>18,603</u>	<u>33,454</u>	<u>5,450</u>

Notes:

- (1) Includes, among others, payment for capital expenditures and game and other content licences. Payment for capital expenditure represents the amount paid for purchase of fixed assets, construction in progress and investment properties, payments for land use rights and payments for intangible assets (excluding game and other content licences), which amounted to RMB4,210 million, RMB4,180 million and RMB5,124 million, RMB 3,463 million and RMB 3,255 million (US\$530 million) for the years ended 31 December 2011, 2012 and 2013 and for the nine months ended 30 September 2013 and 2014, respectively.
- (2) Includes, among others, dividends paid to the Company's shareholders and non-controlling interest owners, which amounted to RMB895 million, RMB1,225 million, RMB1,541 million, RMB1,468 million and RMB1,878 million (US\$306 million) for the years ended 31 December 2011, 2012 and 2013 and for the nine months ended 30 September 2013 and 2014, respectively.

OTHER FINANCIAL DATA

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(US\$ in millions, except for %)
EBITDA ⁽¹⁾	13,298	17,540	20,566	15,382	22,979	3,744
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734	16,267	24,286	3,957
Adjusted EBITDA margin ⁽²⁾	49%	42%	36%	37%	42%	42%
Net Cash ⁽³⁾	17,668	27,381	36,218	34,400	21,283	3,467

	As of and for the year ended 31 December				As of and for the twelve months ended 30 September
	2011	2012	2013	2014	
	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734	29,753	
Interest Expense	73	327	394	707	
Ratios:					
Adjusted EBITDA ⁽¹⁾ to Interest Expense	192x	56x	55x	42x	
Total Debt ⁽⁴⁾ to Adjusted EBITDA ⁽¹⁾	0.84x	0.58x	0.69x	1.15x	

Notes:

- (1) EBITDA for any year or period 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. Other gains/losses, net consist primarily of the gains/losses on deemed disposals of investees and disposals of investees and businesses, dividend income, subsidies and tax rebates, donation to the Tencent Charity Fund, losses from derivative financial instruments and impairment provision for investees and intangible assets arising from acquisitions. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses. EBITDA and Adjusted EBITDA are not standard measures under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to cash flows, net income or any other measure of performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA and Adjusted EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA and Adjusted EBITDA because we believe they are a useful supplement to cash flows data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. EBITDA and Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA or Adjusted EBITDA to the EBITDA or Adjusted EBITDA presented by other companies because not all companies use the same definition.
- (2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by the revenue for the relevant year or period.
- (3) Net cash represents year or period end balance and is calculated as cash and cash equivalents, term deposits and restricted cash pledged for secured bank borrowings minus total debt.
- (4) Total debt consists of our short-term borrowings, which comprise our RMB borrowings (both secured and unsecured), our U.S. dollar borrowings (which are all unsecured), our U.S. dollar denominated unsecured bonds (which were issued in March 2011 and matured and were fully paid off in March 2012), our long-term borrowings, which comprise our offshore U.S. dollar borrowings (which are all unsecured), the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the January 2020 Notes.

The following table reconciles our operating profit under IFRS to our EBITDA and Adjusted EBITDA for the years/periods indicated.

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Operating profit	12,254	15,479	19,194	14,443	23,148	3,771
Adjustments:						
Interest income	(469)	(836)	(1,314)	(937)	(1,233)	(201)
Other (gains)/losses, net	(421)	284	(904)	(499)	(2,416)	(394)
Depreciation of fixed assets and investment properties	1,208	1,880	2,484	1,804	2,227	363
Amortisation of intangible assets	726	733	1,106	571	1,253	205
EBITDA	13,298	17,540	20,566	15,382	22,979	3,744
Equity-settled share-based compensation expenses	733	905	1,168	885	1,307	213
Adjusted EBITDA	14,031	18,445	21,734	16,267	24,286	3,957

OPERATING DATA

The following data sets forth certain operating statistics relating to our Internet platforms and value-added services as of the dates and for the periods presented:

	As of 31 December			As of 30 September	
	2011	2012	2013	2013	2014
	(in millions)			(in millions)	
MAU of QQ ⁽¹⁾	721.0	798.2	808.0	815.6	819.8
Smart device MAU of QQ ⁽²⁾	—	—	426.1	399.2	542.2
Combined MAU of Weixin and WeChat ⁽³⁾	—	160.8	355.0	336.0	468.1
MAU of Qzone ⁽⁴⁾	552.1	602.7	625.2	623.3	628.9
Smart device MAU of Qzone ⁽⁵⁾	—	—	416.2	400.4	506.3
Fee-based VAS registered subscriptions	108.6	104.5	88.6	89.0	88.7

Notes:

- (1) MAU of QQ figures denote the total number of user accounts that logged in at least once during the last calendar month prior to the relevant date.
- (2) Smart device MAU of QQ figures denote the total number of QQ MAU that logged in via the Mobile QQ application on iOS or Android devices at least once during the last calendar month prior to the relevant date. The smart device MAU of QQ was not available for the year ended 31 December 2011 and 2012.
- (3) Combined MAU of Weixin and WeChat figures denote the total number of user accounts that sent out one or more messages via Weixin/WeChat or conducted other proactive operations on Weixin/WeChat, such as logging into Game Center or updating Moments, at least once during the last calendar month prior to the relevant date. The MAU of Weixin and WeChat was not available for the year ended 31 December 2011.
- (4) MAU of Qzone figures denote the total number of user accounts that logged in Qzone at least twice during the last calendar month prior to the relevant date.
- (5) Smart device MAU of Qzone figures denote the total number of Qzone MAU that logged in via the Mobile Qzone application on iOS or Android devices at least once during the last calendar month prior to the relevant date. The smart device MAU of Qzone was not available for the year ended 31 December 2011 and 2012.

	For the three months ended 31 December			For the three months ended 30 September
	2011	2012	2013	2014
	(in millions)			(in millions)
PCU of QQ ⁽¹⁾	152.7	176.4	180.3	216.5

Note:

(1) PCU of QQ figures denote the highest number of simultaneous online user accounts of our QQ platform during the period.

RISK FACTORS

This Section in the accompanying Offering Circular shall be amended by replacing the risk factor “If we fail to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, future results of operations and prospects could be materially and adversely affected” with the following updated risk factor:

“If we fail to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, future results of operations and prospects could be materially and adversely affected.”

It is critical for us to maintain and develop our brands so as to effectively expand our user base, maintain and increase our business partnerships, and grow our revenue. Well-recognised brands are critical to increasing the number and engagement of our users and, in turn, enhancing our attractiveness to advertisers. Since we operate in a highly competitive market, maintaining and enhancing our brands directly affects our ability to maintain our market position. Our main competitors also have established brands and are continuing to take steps to increase their brand recognition and we must continue to maintain and enhance the recognition and value of our brands in this highly competitive market. In order to attract and retain users, we may need to substantially increase our expenditures for creating and maintaining brand loyalty. As a result, our sales and marketing expenses may increase significantly, which may impact our profitability. In addition, due to intense competition in our industry, we may be the target of incomplete, inaccurate and false statements about our company and our services that could damage our reputation and brand and materially deter consumers from making purchases on our marketplaces. Our ability to respond to our competitors’ misleading and aggressive marketing strategies may be limited by legal prohibitions on permissible public communications by us during certain periods or we may incur additional expenditures in responding to these misleading statements.

Our success in promoting and enhancing our brands, as well as our ability to remain competitive, will also depend on our success in offering high-quality content, features and functionality. In addition, the use of words or branding similar to our brands by third parties in other industries could dilute the brand recognition for our brands. If we are unable to maintain and enhance our brand recognition, our business, future results of operations and prospects could be materially and adversely affected.”

This Section shall be further amended by replacing the risk factor “We face uncertainties regarding the growth of the online game industry and continuous market acceptance of our online games and in-game items” with the following updated risk factor:

“We face uncertainties regarding the growth of the online game industry and continuous market acceptance of our online games and in-game items.”

We have derived a significant portion of our revenue from the online game industry, which is rapidly evolving. Revenue from online games constituted 53% of our total revenue for the year ended 31 December 2013 and 57% of our total revenue for the nine months ended 30 September 2014. The growth of the online game industry is subject to a high degree of uncertainty. Our future results of operations associated with this industry will depend on numerous factors, including:

- Internet infrastructure, growth of personal computing, Internet and broadband penetration in the PRC;
- whether the PRC online game industry continues to grow and the rate of any such growth;
- laws, rules, regulations and policies affecting the online game industry, including those affecting Internet cafes in the PRC, where a substantial portion of our game players access online games;

- general economic conditions, particularly economic conditions that impact the level of discretionary consumer spending;
- the availability and popularity of other forms of entertainment;
- changes in consumer demographics, public tastes and preferences;
- our ability to develop, license or acquire new online games and related products to meet market demand and user preferences;
- our ability to develop, license or acquire mobile games to adapt to emerging mobile Internet trends;
- the popularity and price of new online games and in-game items that we and our competitors launch and distribute; and
- our ability to timely upgrade and improve our existing games to extend their lifespans and to maintain their competitive positions in the online game market.

Due to these challenges and uncertainties, we cannot assure you that our online game business will continue to grow at the rates it achieved in the past. Our failure to successfully develop this business could have a material and adverse effect on our results of operations and prospects.”

This Section shall be further amended by adding the following risk factors immediately before the risk factor “We may need additional capital but may not be able to obtain it”:

“Failure to comply with the terms of our indebtedness could result in acceleration of indebtedness, which could have an adverse effect on our cash flow and liquidity.”

As of 30 September 2014, our borrowings and notes payable included in current liabilities were RMB2,710 million (US\$442 million) and RMB1,843 million (US\$300 million), respectively, and borrowings and notes payable included in non-current liabilities were RMB5,537 million (US\$902 million) and RMB24,207 million (US\$3,944 million), respectively. Our total borrowings included in current liabilities comprise onshore RMB borrowings, as well as offshore U.S. dollar borrowings. Borrowings included in non-current liabilities comprise offshore U.S. dollar borrowings. Our notes payable (including current and non-current portion) comprise the 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes, 2019 Notes and January 2020 Notes. See “*Description of Other Material Indebtedness.*” Under the terms of our current indebtedness and any debt financing arrangement that we may enter into in the future, we are, and may be in the future, subject to financial and other covenants that could, among other things, restrict our business and operations. If we breach any of these covenants, including by failing to maintain certain financial ratios, our lenders or noteholders will be entitled to accelerate our debt obligations. Any default under our indebtedness could require that we repay these loans or redeem the notes prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity.

We are subject to interest rate risk in connection with our indebtedness.

We are exposed to interest rate risk related to our indebtedness. The interest rates under our current bank borrowings are based on a spread over LIBOR. As a result, the interest expenses under our bank borrowings will be subject to the potential impact of any fluctuation in LIBOR. Any increase in LIBOR could impact our financing costs, which in turn may have a material adverse effect on our cash flow and liquidity.

This Section shall be further amended by replacing the risk factor “The online advertising market is subject to many uncertainties, which could cause our advertising revenue to be materially and adversely affected” with the following updated risk factor:

“The online advertising market is subject to many uncertainties, which could cause our advertising revenue to be materially and adversely affected.”

Online advertising revenue represented 8% for the year ended 31 December 2013 and 10% for the nine months ended 30 September 2014. The growth of our advertising revenue relies on increased revenue from the sale of advertising inventory on our platforms, which could be affected by the following factors:

- growth of the online advertising market;
- acceptance of online advertising as an effective marketing channel;
- our development of tailored advertising solutions to meet advertising clients’ needs;
- changes in government rules and regulations impacting the advertising industry;
- alternative methods and strategies available to advertising clients to promote their brands and products; and
- development and acceptance of an independent and reliable standard for measuring the effectiveness of online advertising.

We also may be unable to respond adequately to changing trends in online advertising or advertiser demands or preferences or keep up with technological innovations and improvements in the measurement of user traffic and online advertising. If the online advertising market size does not increase from current levels or we are unable to capture and retain a sufficient share of that market, our ability to maintain or increase our current level of online advertising revenue could be materially and adversely affected.”

This Section shall be further amended by replacing the risk factor “Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could adversely affect our business, future results of operations and prospects” with the following updated risk factor:

“Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could adversely affect our business, future results of operations and prospects.”

The National People’s Congress passed the 2008 CIT Law and the State Council passed its implementation rules, both of which became effective on 1 January 2008. The 2008 CIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the PRC Income Tax Law concerning Foreign-Invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) effective prior to 1 January 2008. The 2008 CIT Law, however, (i) reduces the statutory rate of the corporate income tax from 33% to 25% and (ii) introduces new tax incentives, subject to various qualification criteria.

The 2008 CIT Law and its implementing rules permit certain “high/new technology enterprises” to enjoy a reduced 15% corporate income tax rate subject to certain new qualification criteria. Pursuant to the Circular on Certain Corporate Income Tax Preferential Treatments jointly issued by the PRC Ministry of Finance and SAT on 22 February 2008 (財政部、國家稅務總局關於企業所得稅若干優惠政策的通告) and the Circular on Income Tax Policies for Further Encouraging the Development of

Software Industry and Integrated Circuit Industry (“**Circular 27**”) (關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知) issued by SAT and MOF on 20 April 2012, a qualified software enterprise is eligible to be exempted from income tax for its first two profitable years, followed by a 50% reduction of income tax for the subsequent three years.

On 9 August 2012, SAT, MOC, MOF, MIIT and NDRC jointly issued several regulations, including the Tentative Administrative Measures on the Accreditation of the Key Software Enterprises and Integrated Circuit Design Enterprises Included in National Plans (國家規劃佈局內重點軟件企業和集成電路設計企業認定管理試行辦法); and, on 25 July, 2013, SAT further issued the Announcement of the SAT on Issues Concerning the Implementation of Preferential Income Tax Policies for Software Enterprises (國家稅務總局關於執行軟件企業所得稅優惠政策有關問題的公告), both of which, together with the Circular 27, to supersede and replace the Measures for the Administration of Key Software Enterprise Accreditation within National Programming Layout (國家規劃佈局內重點軟件企業認定管理辦法) issued by SAT, MOC, MIIT and NDRC on 20 December 2005. According to the latest regulations, a qualified national key software enterprise is entitled to a reduced 10% corporate income tax rate. Certain of our WFOEs and consolidated affiliated entities have been recognised by the relevant authorities as “national key software enterprises”, “software production enterprises” and “high/new technology enterprises”, and therefore are eligible for the preferential tax treatments upon their filing with and approved by the relevant tax authorities. Preferential tax treatment granted to our WFOEs and consolidated affiliated entities by the local governmental authorities are subject to review and may be adjusted or revoked at any time. We cannot assure you that we will be able to maintain our current effective tax rate in the future. If any of the WFOEs and consolidated affiliated entities, which has enjoyed such preferential tax treatments fails to maintain their qualification status or renew their qualifications when the relevant term expires, their applicable corporate income tax rate may increase to 25%, which could have a material and adverse effect on our business, future results of operations and prospects.”

This Section shall be further amended by replacing the risk factor “PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us” with the following updated risk factor:

***“PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.*”**

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicle (“**Circular 37**”) (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), which abolishes and supersedes the Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (“**Circular 75**”) (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by SAFE on 21 October 2005. Circular 37 and its implementation guidelines require PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity for the purpose of overseas investment and financing with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle”. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent

cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

In order to further clarify foreign exchange administration over foreign direct investment and the implementation and application of Circular 75, SAFE issued Circular 106 on 29 May 2007 and the Circular on Operating Rules Concerning Financing and Round-Trip Investment Undertaken by Domestic Residents through Overseas Special-Purpose Vehicles (“**Circular 19**”) (國家外匯管理局關於印發《境內居民通過境外特殊目的公司融資及返程投資外匯管理操作規程》的通知) on 20 May 2011, which has been superseded by Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents (“**Circular 21**”) (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) promulgated on 11 May 2013.

We have notified substantial holders of ordinary shares of the Company whom we know are PRC residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. We, however, cannot provide any assurances that all of our shareholders who are PRC residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth therein may subject such PRC resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries’ ability to distribute dividends to us or restrict us in injecting additional capital or extending loans to our PRC subsidiaries.

As it is uncertain how the SAFE regulations described above will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business, future results of operations and prospects.”

This Section shall be further amended by adding the following risk factor before the subsection “Risks Relating to Renminbi Denominated Notes” starting on page 57 of the accompanying Offering Circular:

“We may be able to redeem the Notes prior to maturity.

We may be able to redeem a series of the Notes at our option on a date prior to the maturity date if the relevant pricing supplement specifies this optional redemption. The optional redemption feature of a series of the Notes may limit the market value of such Notes. During any period when we may elect to redeem the Notes, the market value of the Notes may not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may also be expected to redeem the Notes with optional redemption feature when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.”

CAPITALISATION AND INDEBTEDNESS

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

The following table sets forth our debt and capitalisation as of 30 September 2014.

This table should be read in conjunction with “*Use of Proceeds*”, “*Selected Consolidated Financial and Other Data*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the consolidated financial information included elsewhere in this Amended Offering Circular.

	<u>As of 30 September 2014</u>	
	(RMB in millions)	(US\$ in millions)
Cash and cash equivalents	<u>33,454</u>	<u>5,450</u>
Current liabilities:		
Borrowings	2,710	442
Notes payable	<u>1,843</u>	<u>300</u>
	4,553	742
Non-current liabilities:		
Notes payable	24,207	3,944
Borrowings	<u>5,537</u>	<u>902</u>
	<u>29,744</u>	<u>4,846</u>
Total debt	<u>34,297</u>	<u>5,588</u>
Capital and reserves attributable to equity shareholders of the Company		
Share capital	—	—
Share premium.....	4,062	662
Shares held for share award schemes	(1,312)	(214)
Other reserves	3,623	590
Retained earnings.....	<u>68,413</u>	<u>11,146</u>
	<u>74,786</u>	<u>12,184</u>
Non-controlling interests	<u>608</u>	<u>99</u>
Total equity	<u>75,394</u>	<u>12,283</u>
Total capitalisation⁽¹⁾	<u>109,691</u>	<u>17,871</u>

Note:

(1) Total capitalisation represents the sum of the total debt under current and non-current liabilities and total equity.

As of the date of this Supplement, there has been no material adverse change in the consolidated capitalisation and indebtedness of the Group since 1 October 2014.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

The selected consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 have been derived from our audited consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 included elsewhere in this Amended Offering Circular. The selected condensed consolidated financial statements as of and for the nine months ended 30 September 2013 and 2014 have been derived from our unaudited condensed consolidated interim financial statements as of and for the nine months ended 30 September 2014 included elsewhere in this Amended Offering Circular.

The summary financial data below should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the audited consolidated financial statements and the unaudited condensed consolidated interim financial statement included elsewhere or incorporated by reference in this Amended Offering Circular. The financial and operating information for the year ended 31 December 2013 and the nine months ended 30 September 2014 is not necessarily indicative of the results that may be expected for the year ended 31 December 2014.

**SELECTED CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED
 31 DECEMBER 2011, 2012 AND 2013 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER
 2013 AND 2014**

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (US\$ in millions)
Revenues:						
VAS ⁽¹⁾	26,314	35,718	44,985	33,053	46,173	7,522
Online advertising	1,992	3,382	5,034	3,537	5,681	926
eCommerce transactions ⁽²⁾	—	4,428	9,796	6,472	4,307	702
Others	190	366	622	405	1,793	292
Total revenues	28,496	43,894	60,437	43,467	57,954	9,442
Cost of revenues	(9,928)	(18,207)	(27,778)	(19,580)	(22,541)	(3,673)
Gross profit	18,568	25,687	32,659	23,887	35,413	5,769
Interest income	469	836	1,314	937	1,233	201
Other gains/(losses), net	421	(284)	904	499	2,416	394
Selling and marketing expenses..	(1,921)	(2,994)	(5,695)	(3,662)	(5,734)	(934)
General and administrative expenses	(5,283)	(7,766)	(9,988)	(7,218)	(10,180)	(1,659)
Operating profit	12,254	15,479	19,194	14,443	23,148	3,771
Finance income/(costs), net	36	(348)	(84)	(90)	(909)	(148)
Share of (losses)/profits of associates and joint ventures ..	(191)	(80)	171	189	(72)	(12)
Profit before income tax	12,099	15,051	19,281	14,542	22,167	3,611
Income tax expense.....	(1,874)	(2,266)	(3,718)	(2,910)	(4,233)	(689)
Profit for the year/period	10,225	12,785	15,563	11,632	17,934	2,922

Notes:

- On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenue was generated from eCommerce transactions in the periods prior to 1 January 2012.

**SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF
 31 DECEMBER 2011, 2012 AND 2013 AND AS OF 30 SEPTEMBER 2014**

	As of 31 December			As of 30 September	
	2011	2012	2013	2014	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (US\$ in millions)
Cash and cash equivalents	12,612	13,383	20,228	33,454	5,450
Restricted cash ⁽¹⁾	4,943	2,520	4,131	6,696	1,091
Term deposits	13,716	13,806	19,623	17,195	2,801
Total current assets	35,503	36,509	53,686	69,452	11,315
Term deposits	—	10,892	11,420	4,931	803
Total non-current assets	21,301	38,747	53,549	86,443	14,083
Total assets	56,804	75,256	107,235	155,895	25,398
Notes payable	—	—	—	1,843	300
Borrowings	7,999	1,077	2,589	2,710	442
Total current liabilities	21,183	20,665	33,267	43,577	7,100
Notes payable	3,733	7,517	9,141	24,207	3,944
Borrowings	—	2,106	3,323	5,537	902
Total non-current liabilities	6,533	12,443	15,505	36,924	6,016
Total liabilities	27,716	33,108	48,772	80,501	13,115
Total equity	29,088	42,148	58,463	75,394	12,283
Total liabilities and equity	56,804	75,256	107,235	155,895	25,398

Note:

- (1) Includes, among others, restricted cash pledged for secured bank borrowings which amounted to RMB3,072 million, Nil, Nil and Nil as of 31 December 2011, 2012, 2013 and as of 30 September 2014, respectively.

**SELECTED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31
 DECEMBER 2011, 2012 AND 2013 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER
 2013 AND 2014**

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (US\$ in millions)
Net cash flows generated from operating activities	13,358	19,429	24,374	17,510	22,032	3,589
Net cash flows used in investing activities ⁽¹⁾	(15,355)	(16,270)	(19,134)	(13,984)	(25,623)	(4,174)
Net cash flows generated from/(used in) financing activities ⁽²⁾	4,373	(2,386)	1,708	1,852	16,937	2,759
Net increase in cash and cash equivalents	2,376	773	6,948	5,378	13,346	2,174
Cash and cash equivalents at beginning of year/period	10,408	12,612	13,383	13,383	20,228	3,296
Exchange losses on cash and cash equivalents	(172)	(2)	(103)	(158)	(120)	(20)
Cash and cash equivalents at end of year/period	<u>12,612</u>	<u>13,383</u>	<u>20,228</u>	<u>18,603</u>	<u>33,454</u>	<u>5,450</u>

Notes:

- (1) Includes, among others, payment for capital expenditures and game and other content licences. Payment for capital expenditure represents the amount paid for purchase of fixed assets, construction in progress and investment properties, payments for land use rights and payments for intangible assets (excluding game and other content licences), which amounted to RMB4,210 million, RMB4,180 million and RMB5,124 million, RMB3,463 million and RMB3,255 million (US\$530 million) for the years ended 31 December 2011, 2012 and 2013 and for the nine months ended 30 September 2013 and 2014, respectively.
- (2) Includes, among others, dividends paid to the Company's shareholders and non-controlling interest owners, which amounted to RMB895 million, RMB1,225 million, RMB1,541 million, RMB1,468 million and RMB1,878 million (US\$306 million) for the years ended 31 December 2011, 2012 and 2013 and for the nine months ended 30 September 2013 and 2014, respectively.

OTHER FINANCIAL DATA

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(US\$ in millions, except for %)
EBITDA ⁽¹⁾	13,298	17,540	20,566	15,382	22,979	3,744
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734	16,267	24,286	3,957
Adjusted EBITDA margin ⁽²⁾	49%	42%	36%	37%	42%	42%
Net Cash ⁽³⁾	17,668	27,381	36,218	34,400	21,283	3,467

	As of and for the year ended 31 December			As of and for the twelve months ended 30 September	
	2011	2012	2013	2014	
	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	(RMB in millions, except for ratios)	
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734	29,753	
Interest Expense.....	73	327	394	707	
Ratios:					
Adjusted EBITDA ⁽¹⁾ to Interest Expense	192x	56x	55x	42x	
Total Debt ⁽⁴⁾ to Adjusted EBITDA ⁽¹⁾	0.84x	0.58x	0.69x	1.15x	

Notes:

- (1) EBITDA for any year or period 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. Other gains/losses, net consist primarily of the gains/losses on deemed disposals of investees and disposals of investees and businesses, dividend income, subsidies and tax rebates, donation to the Tencent Charity Fund, losses from derivative financial instruments and impairment provision for investees and intangible assets arising from acquisitions. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses. EBITDA and Adjusted EBITDA are not standard measures under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to cash flows, net income or any other measure of performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA and Adjusted EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA and Adjusted EBITDA because we believe they are a useful supplement to cash flows data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. EBITDA and Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA or Adjusted EBITDA to the EBITDA or Adjusted EBITDA presented by other companies because not all companies use the same definition.
- (2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by the revenue for the relevant year or period.
- (3) Net cash represents year or period end balance and is calculated as cash and cash equivalents, term deposits and restricted cash pledged for secured bank borrowings minus total debt.
- (4) Total debt consists of our short-term borrowings, which comprise our RMB borrowings (both secured and unsecured), our U.S. dollar borrowings (which are all unsecured), our U.S. dollar denominated unsecured bonds (which were issued in March 2011 and matured and were fully paid off in March 2012), our long-term borrowings, which comprise our offshore U.S. dollar borrowings (which are all unsecured), the 2015 Notes, the 2016 Notes, 2017 Notes, 2018 Notes, 2019 Notes and January 2020 Notes.

The following table reconciles our operating profit under IFRS to our EBITDA and Adjusted EBITDA for the years/periods indicated.

	Year ended 31 December			Nine months ended 30 September		
	2011	2012	2013	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Operating profit	12,254	15,479	19,194	14,443	23,148	3,771
Adjustments:						
Interest income	(469)	(836)	(1,314)	(937)	(1,233)	(201)
Other (gains)/losses, net	(421)	284	(904)	(499)	(2,416)	(394)
Depreciation of fixed assets and investment properties	1,208	1,880	2,484	1,804	2,227	363
Amortisation of intangible assets	726	733	1,106	571	1,253	205
EBITDA	13,298	17,540	20,566	15,382	22,979	3,744
Equity-settled share-based compensation expenses	733	905	1,168	885	1,307	213
Adjusted EBITDA	14,031	18,445	21,734	16,267	24,286	3,957

OPERATING DATA

The following data sets forth certain operating statistics relating to our Internet platforms and value-added services as of the dates and for the periods presented:

	As of 31 December			As of 30 September	
	2011	2012	2013	2013	2014
	(in millions)			(in millions)	
MAU of QQ ⁽¹⁾	721.0	798.2	808.0	815.6	819.8
Smart device MAU of QQ ⁽²⁾	—	—	426.1	399.2	542.2
Combined MAU of Weixin and WeChat ⁽³⁾	—	160.8	355.0	336.0	468.1
MAU of Qzone ⁽⁴⁾	552.1	602.7	625.2	623.3	628.9
Smart device MAU of Qzone ⁽⁵⁾	—	—	416.2	400.4	506.3
Fee-based VAS registered subscriptions	108.6	104.5	88.6	89.0	88.7

Notes:

- (1) MAU of QQ figures denote the total number of user accounts that logged in at least once during the last calendar month prior to the relevant date.
- (2) Smart device MAU of QQ figures denote the total number of QQ MAU that logged in via the Mobile QQ application on iOS or Android devices at least once during the last calendar month prior to the relevant date. The smart device MAU of QQ was not available for the year ended 31 December 2011 and 2012.
- (3) Combined MAU of Weixin and WeChat figures denote the total number of user accounts that sent out one or more messages via Weixin/WeChat or conducted other proactive operations on Weixin/WeChat, such as logging into Game Center or updating Moments, at least once during the last calendar month prior to the relevant date. The MAU of Weixin and WeChat was not available for the year ended 31 December 2011.
- (4) MAU of Qzone figures denote the total number of user accounts that logged in Qzone at least twice during the last calendar month prior to the relevant date.
- (5) Smart device MAU of Qzone figures denote the total number of Qzone MAU that logged in via the Mobile Qzone application on iOS or Android devices at least once during the last calendar month prior to the relevant date. The smart device MAU of Qzone was not available for the year ended 31 December 2011 and 2012.

	For the three months ended 31 December			For the three months ended 30 September
	2011	2012	2013	2014
	(in millions)			(in millions)
PCU of QQ ⁽¹⁾	152.7	176.4	180.3	216.5

Note:

(1) PCU of QQ figures denote the highest number of simultaneous online user accounts of our QQ platform during the period.

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

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

The following is a discussion of our financial condition and results of operations as of and for the years ended 31 December 2011, 2012 and 2013, the three months ended 31 March 2013 and 2014, the three months and the six months ended 30 June 2013 and 2014 and the three months and the nine months ended 30 September 2013 and 2014, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited and unaudited consolidated financial statements included in this Amended Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

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

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country in terms of daily user reach in September 2014, according to iResearch. Our IM communities include QQ, a cross-platform communication platform, with total MAU of 819.8 million and smart devices MAU of 542.2 million, and Weixin and WeChat, mobile-based communication platform, with combined MAU of 468.1 million as of 30 September 2014. Our IM communities are the most engaged in the PRC with QQ users accounting for 90.4% of monthly time spent on PC IM services, and Mobile QQ and Weixin accounting for 76.5% and 86.1% of monthly active users respectively for Mobile IM services, in September 2014, according to iResearch.

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

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

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

- **Online Advertising** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are primarily sold through GDT, a self-service real-time bidding performance advertising platform, and delivered primarily on our SNS platforms and other platforms.
- **eCommerce Transactions** — Our eCommerce transactions business involves B2C eCommerce transaction, sales of merchandise and services on our marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce. We divested our B2C and C2C eCommerce marketplaces due to our strategic transaction with JD.com in March 2014.
- **Others** — Our other services include trademark licensing, software development services and software sales.

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

We commenced our business in November 1998 and went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2013, our total revenues was RMB60,437 million and our profit for the year was RMB15,563 million, an increase of 38% and 22%, respectively, over the year ended 31 December 2012. For the nine months ended 30 September 2014, our total revenues was RMB57,954 million (US\$9,442 million) and our profit for the period was RMB17,934 million (US\$2,922 million), an increase of 33% and 54%, respectively, over the nine months ended 30 September 2013. As of 30 September 2014, our cash and cash equivalents and term deposits amounted to RMB55,580 million (US\$9,054 million).

Recent Developments

On 21 October 2014, we issued the 2.90% Senior Notes in an aggregate principal amount of HK\$1,200 million (the “**April 2020 Notes**”) for general corporate purposes under the Programme. The April 2020 Notes were issued at 100.0% of the aggregate principal amount. Interest on the April 2020 Notes will be payable annually in arrear on 21 October of each year. The April 2020 Notes will mature on 21 April 2020. The April 2020 Notes are constituted by, are subject to and have the benefit of a trust deed dated 10 April 2014 in connection with the Programme. The terms and conditions applicable to the April 2020 Notes are set forth in the relevant pricing supplement. See “*Business —Recent Developments*”.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

The growth of our business and revenues depends on our ability to maintain and expand our highly engaged user community. As of 30 September 2014, MAU of QQ reached 819.8 million, an increase of 0.5% from 815.6 million as of 30 September 2013 and an increase of 1.5% from 808.0 million as of 31 December 2013. Smart device MAU of QQ reached 542.2 million, an increase of 35.8% from

399.2 million as of 30 September 2013 and an increase of 27.3% from 426.1 million as of 31 December 2013. Combined MAU of Weixin and WeChat reached 468.1 million as of 30 September 2014, an increase of 39.3% from 336.0 million as of 30 September 2013 and an increase of 31.9% from 355.0 million as of 31 December 2013.

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

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

For the years ended 31 December 2011, 2012 and 2013, our VAS revenues were RMB26,314 million, RMB35,718 million and RMB44,985 million, respectively. For the nine months ended 30 September 2013 and 2014, our VAS revenues were RMB33,053 million and RMB46,173 million (US\$7,522 million), respectively. Cross-selling of our fee-based services and products to our existing VAS users is expected to continue to be a significant driver of our future revenue and profit growth.

Ability to maintain our market position and brand recognition

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

Ability to develop, acquire and licence content and applications

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

Ability to maintain relationships with strategic partners

We derive value and benefits from our co-operative arrangements with a number of telecommunications operators, online game developers, content providers, application developers, device manufacturers, merchants, suppliers and advertising agencies. A portion of the fees for our VAS are collected through the networks of China Mobile, China Unicom and China Telecom through revenue sharing arrangements that are periodically renewed. We have adopted an open platform strategy and many of our platforms, including QQ, Weixin, Qzone, QQ Game Platform and

YingYongBao, support third-party applications. We also have arrangements with third-party content providers and advertising agencies. The fees and costs paid for content and advertising agency fees to third parties, plus Mobile and Telecom Charges (as defined below) and bandwidth and server custody fees, were RMB7,471 million, RMB9,996 million and RMB12,730 million and RMB11,730 million (US\$1,911 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively. Our ability to maintain existing and develop and foster new, strategic partnerships will be significant factors to enable us to meet the increasingly complex demands of our users and customers, expand our distribution channels and diversify our revenue streams.

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

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

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

PRC regulations affecting the Internet and telecommunications industries

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

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

Macroeconomic conditions in the markets where we operate

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

The continuing maturation of the PRC economy has been attended by a gradual slowdown in economic growth. The World Bank forecasts that the PRC economy will grow 7.5% in 2015. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about potential overinvestment and overleveraging in the PRC economy, the Eurozone sovereign debt crisis, and concerns about a renewed global recession similar to the economic crisis in 2008, may impact the growth of the PRC economy and PRC-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, it is unclear how PRC economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

Recruitment, compensation and retention of employees

The performance of our employees has a significant effect on our business. For example, our senior management team uses its experience and understanding of the PRC Internet and telecommunications industries, local user preferences and key industry players to formulate future growth strategies and respond to industry changes. Skilled research and development personnel are also critical to our development of new services and products (such as new online games) and leverage upon new technologies and infrastructures. The number of our full-time employees was 17,446, 24,160, 27,492 and 26,284 as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. As our workforce expands we incur additional staff costs as costs of revenues to our business. Our total remuneration costs (including capitalised remuneration cost) were RMB4,879 million, RMB7,724 million and RMB10,364 million and RMB11,235 million (US\$1,830 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programs such as training, bonus and share options programs, which would further affect our staff costs.

BASIS OF PRESENTATION

During the periods presented in the consolidated financial statements, we derived substantially all of our revenues under a series of contractual arrangements between our WFOEs and our consolidated affiliated entities. These contractual arrangements are designed to provide us and the WFOEs with effective control over, and (to the extent permitted by PRC law) the right to acquire the equity interests in and assets of our consolidated affiliated entities. Based on such contractual arrangements, we have concluded that it is appropriate to consolidate the financial statements of our consolidated affiliated entities, notwithstanding the lack of direct share ownership, because, in substance, the contractual arrangements transfer the economic risks and benefits of these consolidated affiliated entities to us. Our consolidated affiliated entities include, among others, Tencent Computer, Shiji Kaixuan, Beijing Emark Information and Technology Co. Limited, Nanjing Wang Dian Technology Company Limited, Beijing BIZCOM Technology Company Limited, Beijing Starsinhand Technology Company Limited, Shenzhen Shiji Tianyou Technology Company Limited and Guangzhou Yunxun Technology Company Limited. See *“Risk Factors—Risks Related to our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating our services in the PRC do not comply with PRC governmental restrictions on foreign investment in value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations”* and *“Risk Factors—Risks Related to our Corporate Structure—The contractual arrangements with the consolidated affiliated entities and their shareholders, which relate to critical aspects of our operations may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law”*.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We generate our revenues primarily from four lines of business:

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

Our revenues were RMB28,496 million, RMB43,894 million, RMB60,437 million and RMB57,954 million (US\$9,442 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively. The following table sets forth our revenues by lines of business for the periods indicated:

Year ended 31 December						Nine months ended 30 September		
2011		2012		2013		2014		
(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	(US\$ in millions)	% of Total Revenues

Revenues:

VAS ⁽¹⁾	26,314	92	35,718	81	44,985	75	46,173	7,522	80
Online advertising.....	1,992	7	3,382	8	5,034	8	5,681	926	10
eCommerce transactions ⁽²⁾	—	—	4,428	10	9,796	16	4,307	702	7
Others	190	1	366	1	622	1	1,793	292	3
Total revenues	<u>28,496</u>	<u>100</u>	<u>43,894</u>	<u>100</u>	<u>60,437</u>	<u>100</u>	<u>57,954</u>	<u>9,442</u>	<u>100</u>

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues was generated from eCommerce transactions in periods prior to 1 January 2012.

VAS

Revenues from VAS are primarily derived from the provision of online games and social networks services such as community VAS and item-based sales on our platforms, and accounts for the majority of our total revenues. Our VAS is primarily provided on a subscription basis or on a per-item basis. We derive a substantial portion of online games revenues from the item-based sales and subscription services offered by QQ Game Platform, ACGs such as *Cross Fire*, *QQ Dancer*, *FIFA Online 3*, *League of Legends* and *QQ Speed*, MMOGs such as *Dungeon and Fighter*, and mobile games. We also derive

revenues from item-based sales and subscriptions from our community value-added services such as Qzone subscription service, QQ Membership and Supper VIP. In addition, we generate item-based sales revenues within the in-house and third-party applications offered through our platforms including Qzone, Mobile QQ, Weixin and QQ Game Platform.

Revenues from VAS were RMB26,314 million, RMB35,718 million, RMB44,985 million and RMB46,173 million (US\$7,522 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively. Our online game business recently benefited from growth in PC client games and smart phone games integrated with Mobile QQ and Weixin. Our social networks revenues recently benefited from increased item sales on mobile platforms and renewed growth of subscription services.

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

Online advertising

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

Revenues from online advertising were RMB1,992 million, RMB3,382 million, RMB5,034 million and RMB5,681 million (US\$926 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively. Our online advertising business recently benefited from the significant growth in online video advertising and mobile advertising.

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

eCommerce transactions

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

Revenues for eCommerce transactions were insignificant in 2011, and RMB4,428 million, RMB9,796 million and RMB4,307 million (US\$702 million) for the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, respectively. The recent decrease primarily reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Shanghai Icsen business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions. Consequently, we divested certain of our B2C and C2C eCommerce marketplaces as part of our strategic transaction with JD.com and as a result ceased recognising related revenues and costs.

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

Others

Revenues from others are primarily from the provision of trademark licensing, software development services and software sales. Revenues from others was RMB190 million, RMB366 million, RMB622 million and RMB1,793 million (US\$292 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively.

Cost of revenues

Our cost of revenues were RMB9,928 million, RMB18,207 million, RMB27,778 million and RMB22,541 million (US\$3,673 million) for the years ended 31 December 2011, 2012 and 2013 and nine months ended 30 September 2014, respectively.

Cost of revenues consists of the direct costs for operating and offering our services and products, which consist primarily of sharing and content costs (mainly including content costs and agency fees), telecommunications operators' portion of revenues for our value-added services provided over their network platforms, bandwidth and server custody fees, depreciation of our equipment and other direct costs. Staff costs that directly relate to the provision of our services and products are also included in cost of revenues.

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

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

Telecommunications operators' portion of revenues for our value-added services provided over their network platforms includes the commission based on certain percentages of the service fees collected by them and imbalance fees. Imbalance fees are payable by us for the excess of the number of messages sent from our Internet platforms to mobile phones over the number of messages sent from mobile phones to our Internet platforms.

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

Interest income

Interest income primarily consists of interest income from bank deposits including current deposits and term deposits.

Other gains/(losses), net

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

Selling and marketing expenses

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

General and administrative expenses

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

Finance income/(costs), net

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

Income tax expense

We were not subject to any income tax in the Cayman Islands or the BVI in 2011, 2012 and 2013 and the nine months ended 30 September 2014. We did not make any United States corporate income tax provision or Hong Kong profits tax provision in 2011. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, U.S. corporate income tax provision were made for entities within our Group that are incorporated in the United States on the estimated assessable profits at the rate of 36% and Hong Kong profits tax provision was provided on the estimated assessable profits at the rate of 16.5%.

Our revenues are primarily derived from our entities incorporated in the PRC. Our entities incorporated in the PRC are subject to income tax in the PRC. Our income tax expense was RMB1,874 million, RMB2,266 million, RMB3,718 million and RMB4,233 million (US\$689 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively.

According to the 2008 CIT Law, effective on 1 January 2008, there is a 25% corporate income tax for domestic and foreign-invested enterprises on their worldwide income. However, the State Council provided certain transitional phase-out rules, which provided for a transition period to enterprises that had preferential tax treatment prior to the promulgation of the 2008 CIT Law. In particular, enterprises that were incorporated prior to 16 March 2007 and entitled to the exemptions or reduced income tax rates for fixed terms under the old foreign invested enterprise tax law would continue to enjoy such treatment until the expiry of such fixed terms provided that, for the enterprises whose preferential tax treatments have not commenced due to lack of taxable profit, the fixed preferential terms shall commence from the year of 2008. Under the 2008 CIT Law and its implementation rules, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 and applied for a renewal 3-year period from 2014 to 2016 according to the applicable CIT Law. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in each year from 2011 to 2014 were further reduced to 10%.

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

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived on or after 1 January 2008 are subject

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

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

Revenue Recognition

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

VAS

Revenues from VAS are derived principally from the provision of online games, community VAS and item-based sales within applications on our PC and mobile platforms.

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

In collecting the Internet and Mobile Service Fees on our behalf, these telecommunications operators are entitled to a fixed commission, which is calculated based on agreed percentages of the Internet and Mobile Service Fees received/receivable by them, plus, in certain cases, applicable imbalance fees (collectively defined as the “**Mobile and Telecom Charges**”). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to us.

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

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

used to purchase services, the revenues are recognised when the related services are rendered, and when the payment unit is used to purchase virtual products/items in our Internet platforms, the revenues are recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship, whichever is the longer.

In relation to the sharing income derived from third-party games or applications which are available on our platforms and hosted by the developers, we recognise the related revenues on a related net basis because we act as an agent in such arrangements. We defer the related revenues over an estimated period as there is an implicit obligation for us to maintain and allow the users' access to the games or applications through our platforms.

Online advertising

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

For brand display advertising contracts based on the actual time period that the advertisements are displayed on our websites, IM clients or other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed. In addition, revenues from some other brand display advertising contracts are recognised based on the number of impressions of the advertisements. For performance display advertising, the pricing of the advertising inventory is determined through a bidding system and the revenues are recognised based on the number of clicks generated from the advertisement.

eCommerce transactions

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

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

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

Research and Development Expenses

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

Share-based Compensation Expenses

We have adopted several share option schemes and share award schemes as part of our compensation benefits to employees. The fair value of the employee services received in exchange for the grant of options and awarded shares is recognised as an expense and credited to share premium. For grants of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted by using an option-pricing model, the Black-Scholes valuation model, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. As we use the Black-Scholes valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period, significant judgment on parameters, such as risk-free rate, dividend yield and expected volatility, is required to be made by the Directors in applying the Black-Scholes valuation model. The fair value of options granted determined using the Black-Scholes valuation model was approximately HK\$63 million and HK\$15 million for the years ended 31 December 2011 and 2012, respectively. There was no option granted to employees in 2013.

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

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

Income Taxes

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

RESULTS OF OPERATIONS

Three months Ended 30 September 2014 Compared to Three months Ended 30 September 2013

Revenues. Revenues increased by RMB4,273 million, or 28%, from RMB15,535 million for the three months ended 30 September 2013 to RMB19,808 million (US\$3,227 million) for the three months ended 30 September 2014.

The following table sets forth our revenues by lines of business for the three months ended 30 September 2013 and 2014:

	Unaudited three months ended 30 September				
	2013		2014		
	Amount	% of total revenues	Amount	% of total revenues	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)	
VAS	11,635	75	16,047	2,614	82
Online advertising	1,390	9	2,440	398	12
eCommerce transactions	2,359	15	459	75	2
Others	151	1	862	140	4
Total revenues	15,535	100	19,808	3,227	100

Revenues from VAS increased by RMB4,412 million, or 38%, from RMB11,635 million for the three months ended 30 September 2013 to RMB16,047 million (US\$2,614 million) for the three months ended 30 September 2014. Online games revenues increased by 34%, to RMB11,324 million (US\$1,845 million). This primarily reflected revenue growth in PC client games, driven by our major titles, recently launched titles and increased contributions from international markets. Revenues from smart phone games integrated with Mobile QQ and Weixin also grew, with an expanded user base and full quarter revenue contribution compared to the same period last year. Social networks revenues increased by 47% to RMB4,723 million (US\$769 million), due to increased item sales on mobile platforms and renewed growth of subscription revenues, as we enhanced our mobile privileges and mobile user experience for QQ Membership, Super VIP and Qzone subscription service. As a percentage of total revenues, revenues from VAS increased from 75% for the three months ended 30 September 2013 to 82% for the three months ended 30 September 2014.

Revenues from online advertising increased by RMB1,050 million, or 76%, from RMB1,390 million for the three months ended 30 September 2013 to RMB2,440 million (US\$398 million) for the three months ended 30 September 2014. This was driven by: (1) an increase in revenues from video advertising, due to underlying viewer growth and the non-recurring impact of airing the Voice of China 3 and FIFA World Cup content; and (2) enhanced revenues from performance-based social advertising, primarily due to Mobile Qzone. As a percentage of total revenues, revenues from online advertising increased from 9% for the three months ended 30 September 2013 to 12% for the three months ended 30 September 2014.

Revenues from eCommerce transactions decreased by RMB1,900 million, or 81%, from RMB2,359 million for the three months ended 30 September 2013 to RMB459 million (US\$75 million) for the three months ended 30 September 2014. This primarily reflected a traffic shift to JD.com following our strategic transaction with JD.com in March 2014, and the repositioning of our Shanghai Ison business from principal to marketplace operations, resulting in a significant decline in revenues from principal eCommerce transactions. As a percentage of total revenues, revenues from eCommerce transactions decreased from 15% for the three months ended 30 September 2013 to 2% for the three months ended 30 September 2014.

Revenues from others increased by RMB711 million, or 471%, from RMB151 million for the three months ended 30 September 2013 to RMB862 million (US\$140 million) for the three months ended 30 September 2014. As a percentage of total revenues, revenues from others increased from 1% for the three months ended 30 September 2013 to 4% for the three months ended 30 September 2014.

Cost of revenues. Cost of revenues increased by RMB131 million, or 2%, from RMB7,036 million for the three months ended 30 September 2013 to RMB7,167 million (US\$1,168 million) for the three months ended 30 September 2014. This primarily reflected increases in sharing and content costs, staff costs, and bandwidth and server custody fees, partly offset by a significant decline in cost of merchandise sold due to decreased revenues from principal eCommerce transactions. As a percentage of revenues, cost of revenues decreased from 45% for the three months ended 30 September 2013 to 36% for the three months ended 30 September 2014. Excluding the eCommerce transactions business, cost of revenues increased by 42% to RMB6,821 million.

The following table sets forth our cost of revenues by lines of business for three months ended 30 September 2013 and 2014:

	Unaudited three months ended 30 September				
	2013		2014		
	Amount	% of segment revenues	Amount	% of segment revenues	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)	
VAS.....	4,069	35	5,325	868	33
Online advertising	662	48	1,177	192	48
eCommerce transactions	2,220	94	346	56	75
Others.....	85	56	319	52	37
Total cost of revenues.....	7,036		7,167	1,168	

Cost of revenues for VAS increased by RMB 1,256 million, or 31%, from RMB4,069 million for the three months ended 30 September 2013 to RMB5,325 million (US\$868 million) for the three months ended 30 September 2014. This primarily reflected increases in sharing and content costs, staff costs, and bandwidth and server custody fees due to more user traffic and activity. As a percentage of revenues generated from the same segment, cost of revenues decreased from 35% for the three months ended 30 September 2013 to 33% for the three months ended 30 September 2014.

Cost of revenues for online advertising increased by RMB515 million, or 78%, from RMB662 million for the three months ended 30 September 2013 to RMB1,177 million (US\$192 million) for the three months ended 30 September 2014. This primarily reflected higher investment in video content, including costs related to the Voice of China 3. Commissions payable to advertising agencies also increased. As a percentage of revenues generated from the same segment, cost of revenues remained at 48% for the three months ended 30 September 2014 as compared to the three months ended 30 September 2013.

Cost of revenues for eCommerce transactions decreased by RMB1,874 million, or 84%, from RMB2,220 million for the three months ended 30 September 2013 to RMB346 million (US\$56 million) for the three months ended 30 September 2014. This primarily reflected a decline in cost of merchandise sold, driven by lower revenues from principal eCommerce transactions. As a percentage of revenues generated from the same segment, cost of revenues decreased from 94% for the three months ended 30 September 2013 to 75% for the three months ended 30 September 2014.

Cost of revenues for others increased by RMB234 million, or 275%, from RMB85 million for the three months ended 30 September 2013 to RMB319 million (US\$52 million) for the three months ended 30 September 2014.

Gross profit. Gross profit increased by RMB4,142 million, or 49%, from RMB8,499 million for the three months ended 30 September 2013 to RMB12,641 million (US\$2,059 million) for the three months ended 30 September 2014. Our gross margin was 64% for the three months ended 30 September 2014 as compared to 55% for the three months ended 30 September 2013.

Interest income. Interest income increased by RMB116 million, or 35%, from RMB336 million for the three months ended 30 September 2013 to RMB452 million (US\$74 million) for the three months ended 30 September 2014.

Other gains, net. We recorded other gains, net of RMB118 million (US\$19 million) for the three months ended 30 September 2014, compared to other gains, net of RMB66 million for the three months ended 30 September 2013. In the third quarter of 2014, we recognised a deemed disposal gain related to an investee company, as well as impairment provisions for selected investee companies and certain intangible assets arising from acquisitions.

Selling and marketing expenses. Selling and marketing expenses increased by RMB441 million, or 30%, from RMB1,465 million for the three months ended 30 September 2013 to RMB1,906 million (US\$311 million) for the three months ended 30 September 2014. This was primarily driven by an increase in advertising spending on products and platforms such as online games and online media. As a percentage of total revenues, selling and marketing expenses increased from 9% for the three months ended 30 September 2013 to 10% for the three months ended 30 September 2014.

General and administrative expenses. General and administrative expenses increased by RMB1,169 million, or 45%, from RMB2,621 million for the three months ended 30 September 2013 to RMB3,790 million (US\$617 million) for the three months ended 30 September 2014. This primarily reflected increases in research and development expenses and staff costs. As a percentage of total revenues, general and administrative expenses increased from 17% for the three months ended 30 September 2013 to 19% for the three months ended 30 September 2014.

Operating profit. Operating profit increased by RMB2,700 million, or 56%, from RMB4,815 million for the three months ended 30 September 2013 to RMB7,515 million (US\$1,224 million) for the three months ended 30 September 2014.

Finance costs, net. We recorded finance costs, net of RMB317 million (US\$52 million) for the three months ended 30 September 2014, compared to finance costs, net of RMB22 million for the three months ended 30 September 2013. This primarily reflected an increase in interest expense driven by higher amount of notes payable, and the recognition of foreign exchange losses due to exchange rate movements in the third quarter of 2014, compared to foreign exchange gains in the same period last year.

Profit before income tax. Profit before income tax increased by RMB2,227 million, or 46%, from RMB4,832 million for the three months ended 30 September 2013 to RMB7,059 million (US\$1,150 million) for the three months ended 30 September 2014.

Income tax expense. Income tax expense increased by RMB428 million, or 45%, from RMB955 million for the three months ended 30 September 2013 to RMB1,383 million (US\$225 million) for the three months ended 30 September 2014. This primarily reflected higher profit before income tax.

Profit for the period. As a result of the factors discussed above, profit for the period increased by RMB1,799 million, or 46%, from RMB3,877 million for the three months ended 30 September 2013 to RMB5,676 million (US\$925 million) for the three months ended 30 September 2014. Our profit margin increased from 25% for the three months ended 30 September 2013 to 29% for the three months ended 30 September 2014.

Three Months Ended 30 June 2014 Compared to Three Months Ended 30 June 2013

Revenues. Revenues increased by RMB5,362 million, or 37%, from RMB14,384 million for the three months ended 30 June 2013 to RMB19,746 million for the three months ended 30 June 2014.

The following table sets forth our revenues by lines of business for the three months ended 30 June 2013 and 2014:

	Unaudited three months ended 30 June			
	2013		2014	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS	10,752	75	15,713	80
Online advertising	1,297	9	2,064	10
eCommerce transactions	2,199	15	1,324	7
Others	136	1	645	3
Total revenues	14,384	100	19,746	100

Revenues from VAS increased by RMB4,961 million, or 46%, from RMB10,752 million for the three months ended 30 June 2013 to RMB15,713 million for the three months ended 30 June 2014. Online games revenues increased by 46% to RMB11,081 million. This primarily reflected contributions from smart phone games integrated with Mobile QQ and Weixin, as well as increased revenues from PC client games driven by new titles, such as Assault Fire and Blade & Soul, and League of Legends in China and international markets. Social networks revenues increased by 47% to RMB4,632 million. This was mainly driven by item sales on mobile platforms. Subscription revenues were broadly stable as compared to the same period last year. As a percentage of total revenues, revenues from VAS increased from 75% for the three months ended 30 June 2013 to 80% for the three months ended 30 June 2014.

Revenues from online advertising increased by RMB767 million, or 59%, from RMB1,297 million for the three months ended 30 June 2013 to RMB2,064 million for the three months ended 30 June 2014. This was mainly driven by growth in revenues from video advertising and performance-based social advertising, as well as the positive impacts of the FIFA World Cup and our strategic co-operation with JD.com. The increase was partly offset by the transfer of our online search business to Sogou in September 2013. As a percentage of total revenues, revenues from online advertising increased from 9% for the three months ended 30 June 2013 to 10% for the three months ended 30 June 2014.

Revenues from eCommerce transactions decreased by RMB875 million, or 40%, from RMB2,199 million for the three months ended 30 June 2013 to RMB1,324 million for the three months ended 30 June 2014. This primarily reflected the shift in traffic and the divestment of our eCommerce marketplaces as a result of our strategic transaction with JD.com. As a percentage of total revenues, revenues from eCommerce decreased from 15% for the three months ended 30 June 2013 to 7% for the three months ended 30 June 2014.

Revenues from others increased by RMB509 million, or 374%, from RMB136 million for the three months ended 30 June 2013 to RMB645 million for the three months ended 30 June 2014. As a percentage of total revenues, revenues from others increased from 1% for the three months ended 30 June 2013 to 3% for the three months ended 30 June 2014.

Cost of revenues. Cost of revenues increased by RMB984 million, or 15%, from RMB6,590 million for the three months ended 30 June 2013 to RMB7,574 million for the three months ended 30 June 2014. This mainly reflected increases in sharing and content costs, staff costs as well as bandwidth

and server custody fees, partly offset by a decline in cost of merchandise sold due to decreased revenues from our eCommerce transactions business. As a percentage of revenues, cost of revenues decreased to 38% for the three months ended 30 June 2014 from 46% for the three months ended 30 June 2013.

The following table sets forth our cost of revenues by lines of business for the three months ended 30 June 2013 and 2014:

	Unaudited three months ended 30 June			
	2013		2014	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS	3,836	36	4,755	30
Online advertising	600	46	1,140	55
eCommerce transactions	2,073	94	1,416	107
Others	81	60	263	41
Total cost of revenues.....	6,590		7,574	

Cost of revenues for VAS increased by RMB919 million, or 24%, from RMB3,836 million for the three months ended 30 June 2013 to RMB4,755 million for the three months ended 30 June 2014. This mainly reflected increases in staff costs, bandwidth and server custody fees as well as sharing and content costs. The growth rate of cost of revenues was lower than that of revenues partially as a result of relatively higher incremental margins on our self-developed smart phone games. As a percentage of revenues generated from the same segment, cost of revenues decreased from 36% for the three months ended 30 June 2013 to 30% for the three months ended 30 June 2014.

Cost of revenues for online advertising increased by RMB540 million, or 90%, from RMB600 million for the three months ended 30 June 2013 to RMB1,140 million for the three months ended 30 June 2014. This primarily reflected an increase in video content cost, for which we have accelerated the amortisation since the fourth quarter of 2013. Commissions payable to advertising agencies also increased. As a percentage of revenues generated from the same segment, cost of revenues increased from 46% for the three months ended 30 June 2013 to 55% for the three months ended 30 June 2014.

Cost of revenues for eCommerce transactions decreased by RMB657 million, or 32%, from RMB2,073 million for the three months ended 30 June 2013 to RMB1,416 million for the three months ended 30 June 2014. This was mainly driven by a decline in cost of merchandise sold, which reflected lower revenues from principal eCommerce transactions, partly offset by the recognition of an inventory provision charge in the second quarter of 2014. As a percentage of revenues generated from the same segment, cost of revenues increased from 94% for the three months ended 30 June 2013 to 107% for the three months ended 30 June 2014.

Cost of revenues for others increased by RMB182 million, or 225%, from RMB81 million for the three months ended 30 June 2013 to RMB263 million for the three months ended 30 June 2014.

Gross profit. Gross profit increased by RMB4,378 million, or 56%, from RMB7,794 million for the three months ended 30 June 2013 to RMB12,172 million for the three months ended 30 June 2014. Our gross margin was 62% for the three months ended 30 June 2014 as compared to 54% for the three months ended 30 June 2013.

Interest income. Interest income increased by RMB82 million, or 25%, from RMB324 million for the three months ended 30 June 2013 to RMB406 million for the three months ended 30 June 2014.

Other gains, net. We recorded other gains, net of RMB691 million for the three months ended 30 June 2014, compared to other gains, net of RMB82 million for the three months ended 30 June 2013. This primarily reflected the recognition of deemed disposal gains related to investees mainly resulting from the IPOs of JD.com and Cheetah Mobile, partly offset by the recognition of impairment provision for selected investee companies and a donation made to the Tencent Charity Fund in the second quarter of 2014.

Selling and marketing expenses. Selling and marketing expenses increased by RMB739 million, or 60%, from RMB1,234 million for the three months ended 30 June 2013 to RMB1,973 million for the three months ended 30 June 2014. This was mainly driven by promotional programs for Weixin Payment, as well as higher marketing spending on online games, mobile applications store and online media. As a percentage of revenues, selling and marketing expenses increased from 9% for the three months ended 30 June 2013 to 10% for the three months ended 30 June 2014.

General and administrative expenses. General and administrative expenses increased by RMB1,052 million, or 44%, from RMB2,401 million for the three months ended 30 June 2013 to RMB3,453 million for the three months ended 30 June 2014. This primarily reflected increases in research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses was 17% for the three months ended 30 June 2014, broadly stable compared to the three months ended 30 June 2013.

Operating profit. Operating profit increased by RMB3,278 million, or 72%, from RMB4,565 million for the three months ended 30 June 2013 to RMB7,843 million for the three months ended 30 June 2014.

Finance (costs)/income, net. We recorded finance costs, net of RMB354 million for the three months ended 30 June 2014, compared to finance income, net of RMB14 million for the three months ended 30 June 2013. The change mainly reflected the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in the second quarter of 2014, compared to foreign exchange gains in the same period last year. This also reflected an increase in interest expense mainly as a result of higher notes payable.

Profit before income tax. Profit before income tax increased by RMB2,902 million, or 63%, from RMB4,610 million for the three months ended 30 June 2013 to RMB7,512 million for the three months ended 30 June 2014.

Income tax expense. Income tax expense increased by RMB760 million, or 82%, from RMB926 million for the three months ended 30 June 2013 to RMB1,686 million for the three months ended 30 June 2014. This primarily reflected an increase in deferred tax liabilities in respect of withholding taxes as well as higher profit before income tax.

Profit for the period. As a result of the factors discussed above, profit for the period increased by RMB2,142 million, or 58%, from RMB3,684 million for the three months ended 30 June 2013 to RMB5,826 million for the three months ended 30 June 2014. Our profit margin increased from 26% for the three months ended 30 June 2013 to 30% for the three months ended 30 June 2014.

Three Months Ended 31 March 2014 Compared to Three Months Ended 31 March 2013

Revenues. Revenues increased by RMB4,852 million, or 36%, from RMB13,548 million for the three months ended 31 March 2013 to RMB18,400 million for the three months ended 31 March 2014.

The following table sets forth our revenues by lines of business for the three months ended 31 March 2013 and 2014:

	Unaudited three months ended 31 March			
	2013		2014	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS	10,666	79	14,413	78
Online advertising	850	6	1,177	6
eCommerce transactions	1,914	14	2,524	14
Others	118	1	286	2
Total revenues	13,548	100	18,400	100

Revenues from VAS increased by RMB3,747 million, or 35%, from RMB10,666 million for the three months ended 31 March of 2013 to RMB14,413 million for the three months ended 31 March 2014. Online games revenues increased by 39% to RMB10,387 million. The increase was mainly driven by new contributions from smart phone games integrated with Mobile QQ and Weixin, revenue growth from major PC titles and our international business, as well as contributions from new PC titles such as Blade & Soul. Social networks revenues increased by 26% to RMB4,026 million. This was primarily driven by an increase in platform revenues from smart phone games integrated with Mobile QQ and Weixin, as well as growth in item-based sales within applications on our open platforms, partially offset by a decline in subscription revenues. As a percentage of total revenues, revenues from VAS decreased from 79% for the three months ended 31 March 2013 to 78% for the three months ended 31 March 2014.

Revenues from online advertising increased by RMB327 million, or 38%, from RMB850 million for the three months ended 31 March 2013 to RMB1,177 million for the three months ended 31 March 2014. This was primarily driven by increases in revenues from performance-based social advertising, online video advertising and, to a lesser extent, traditional brand display advertising, which more than offset the revenue impact of transferring our online search business to Sogou in September 2013. As a percentage of total revenues, revenues from online advertising remained at 6% for the three months ended 31 March 2014 compared to the three months ended 31 March 2013.

Revenues from eCommerce transactions increased by RMB610 million, or 32%, from RMB1,914 million for the three months ended 31 March 2013 to RMB2,524 million for the three months ended 31 March 2014. This was mainly driven by growth in principal eCommerce transactions volume. As a percentage of total revenues, revenues from eCommerce remained at 14% for the three months ended 31 March 2014 compared to the three months ended 31 March 2013.

Revenues from others increased by RMB168 million, or 142%, from RMB118 million for the three months ended 31 March 2013 to RMB286 million for the three months ended 31 March 2014. As a percentage of total revenues, revenues from others increased from 1% for the three months ended 30 March 2013 to 2% for the three months ended 30 March 2014.

Cost of revenues. Cost of revenues increased by RMB1,846 million, or 31%, from RMB5,954 million for the three months ended 31 March 2013 to RMB7,800 million for the three months ended 31 March 2014. This primarily reflected increases in cost of merchandise sold, sharing and content costs as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues decreased to 42% for the three months ended 31 March 2014 from 44% for the three months ended 31 March 2013.

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

	Unaudited three months ended 31 March			
	2013		2014	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS	3,593	34	4,371	30
Online advertising	504	59	766	65
eCommerce transactions	1,782	93	2,422	96
Others	75	64	241	84
Total cost of revenues.....	5,954		7,800	

Cost of revenues for VAS increased by RMB 778 million, or 22%, from RMB3,593 million for the three months ended 31 March 2013 to RMB4,371 million for the three months ended 31 March 2014. This was primarily driven by increases in sharing and content costs, bandwidth and server custody fees as well as staff costs. Cost of revenues grew more slowly than revenues partly due to relatively higher incremental margins on our smart phone games, which were mostly internally-developed titles. As a percentage of revenues generated from the same segment, cost of revenues decreased from 34% for the three months ended 31 March 2013 to 30% for the three months ended 31 March 2014.

Cost of revenues for online advertising increased by RMB262 million, or 52%, from RMB504 million for the three months ended 31 March 2013 to RMB766 million for the three months ended 31 March 2014. The increase mainly reflected an increase in video content cost, for which we have accelerated the amortisation since the fourth quarter of 2013. Bandwidth and server custody fees as well as staff costs also increased. As a percentage of revenues generated from the same segment, cost of revenues increased from 59% for the three months ended 31 March 2013 to 65% for the three months ended 31 March 2014.

Cost of revenues for eCommerce transactions increased by RMB640 million, or 36%, from RMB1,782 million for the three months ended 31 March 2013 to RMB2,422 million for the three months ended 31 March 2014. This primarily reflected an increase in cost of merchandise sold driven by growth in our principal eCommerce transactions volume. As a percentage of revenues generated from the same segment, cost of revenues increased from 93% for the three months ended 31 March 2013 to 96% for the three months ended 31 March 2014.

Cost of revenues for others increased by RMB166 million, or 221%, from RMB75 million for the three months ended 31 March 2013 to RMB241 million for the three months ended 31 March 2014.

Gross profit. Gross profit increased by RMB3,006 million, or 40%, from RMB7,594 million for the three months ended 31 March 2013 to RMB10,600 million for the three months ended 31 March 2014. Our gross margin was 58% for the three months ended 31 March 2014 as compared to 56% for the three months ended 31 March 2013.

Interest income. Interest income increased by RMB98 million, or 35%, from RMB277 million for the three months ended 31 March 2013 to RMB375 million for the three months ended 31 March 2014.

Other gains, net. We recorded other gains, net of RMB1,607 million for the three months ended 31 March 2014, compared to other gains, net of RMB351 million for the three months ended 31 March 2013. The increase was driven by a disposal gain of RMB1,942 million flowing from our strategic transaction with JD.com, and a disposal gain of RMB743 million on sale of our equity interests in ChinaVision, partially offset by the recognition of impairment provision for selected investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB892 million, or 93%, from RMB963 million for the three months ended 31 March 2013 to RMB1,855 million for the three months ended 31 March 2014. This primarily reflected a significant subsidy program for users and merchants of Weixin Payment, notably for booking taxi rides, together with increased marketing spending on our mobile security software and mobile browser. As a percentage of revenues, selling and marketing expenses increased from 7% for the three months ended 31 March 2013 to 10% for the three months ended 31 March 2014.

General and administrative expenses. General and administrative expenses increased by RMB741 million, or 34%, from RMB2,196 million for the three months ended 31 March 2013 to RMB2,937 million for the three months ended 31 March 2014. This mainly reflected higher research and development expenses and staff costs. As a percentage of revenues, general and administrative expenses was 16% for the three months ended 31 March 2014, broadly stable compared to the three months ended 31 March 2013.

Operating profit. Operating profit increased by RMB2,727 million, or 54%, from RMB5,063 million for the three months ended 31 March 2013 to RMB7,790 million for the three months ended 31 March 2014.

Finance costs, net. We recorded finance costs, net of RMB238 million for the three months ended 31 March 2014, compared to finance costs, net of RMB82 million for the three months ended 31 March 2013. This primarily reflected the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in the first quarter of 2014, compared to foreign exchange gains in the same period last year.

Profit before income tax. Profit before income tax increased by RMB2,496 million, or 49%, from RMB5,100 million for the three months ended 31 March 2013 to RMB7,596 million for the three months ended 31 March 2014.

Income tax expense. Income tax expense increased by RMB135 million, or 13%, from RMB1,029 million for the three months ended 31 March 2013 to RMB1,164 million for the three months ended 31 March 2014. In the first quarter of 2014, deferred tax liabilities in respect of withholding taxes increased as compared to same period last year. Conversely, in the first quarter of 2014, we recognised a reversal of income tax expense for a subsidiary in China which qualified to enjoy a lower CIT rate.

Profit for the period. As a result of the factors discussed above, profit for the period increased by RMB2,361 million, or 58%, from RMB4,071 million for the three months ended 31 March 2013 to RMB6,432 million for the three months ended 31 March 2014. Our profit margin increased from 30% for the three months ended 31 March 2013 to 35% for the three months ended 31 March 2014.

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

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

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

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

Note:

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

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

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

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

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

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

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

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

Note:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenues. Revenues increased by RMB15,398 million, or 54%, from RMB28,496 million in 2011 to RMB43,894 million in 2012.

The following table sets forth our revenues by lines of business for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2011		2012	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS ⁽¹⁾	26,314	92	35,718	81
Online advertising	1,992	7	3,382	8
eCommerce transactions ⁽²⁾	—	—	4,428	10
Others	190	1	366	1
Total revenues	28,496	100	43,894	100

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues were generated from eCommerce transactions in periods prior to 1 January 2012.

Revenues from VAS increased by RMB9,404 million, or 36%, from RMB26,314 million in 2011 to RMB 35,718 million in 2012. Online games revenues grew by RMB7,275 million, or 44% from RMB16,542 million in 2011 to RMB23,817 million in 2012. This was primarily driven by growth in our major titles, and contributions from new titles launched in 2012, and increased contributions from international markets. Revenues from our social networks increased by RMB2,129 million, or 22% from RMB9,772 million in 2011 to RMB11,901 million in 2012, mainly attributable to growth in our open platforms. Revenues from our open platforms grew primarily due to a significant increase in usage of third-party applications, and consequently sales of virtual items within such applications. As a percentage of total revenues, revenues from VAS decreased from 92% in 2011 to 81% in 2012.

Revenues from online advertising increased by RMB1,390 million, or 70%, from RMB1,992 million in 2011 to RMB3,382 million in 2012. This mainly reflected new revenue contribution from performance-based social advertising and growth in video advertising. Traditional brand display advertising and search advertising also contributed to our business growth. As a percentage of total revenues, revenues from online advertising increased from 7% in 2011 to 8% in 2012.

Revenues from eCommerce transactions was RMB4,428 million for the year ended 31 December 2012. As a percentage of total revenues, revenues from eCommerce transactions accounted for 10% for the year ended 31 December 2012.

Revenues from others increased by RMB176 million, or 93%, from RMB190 million in 2011 to RMB366 million in 2012.

Cost of revenues. Cost of revenues increased by RMB8,279 million, or 83%, from RMB9,928 million in 2011 to RMB18,207 million in 2012. This mainly reflected the recognition of costs of merchandise sold relating to our eCommerce transactions business, as well as increases in sharing and content costs and staff costs. As a percentage of revenues, cost of revenues increased from 35% in 2011 to 41% in 2012.

The following table sets forth our cost of revenues by lines of business for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2011		2012	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS ⁽¹⁾	8,893	34	12,064	34
Online advertising	795	40	1,733	51
eCommerce transactions ⁽²⁾	—	—	4,192	95
Others	240	126	218	60
Total cost of revenues	9,928		18,207	

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues were generated from eCommerce transactions in periods prior to 1 January 2012.

Cost of revenues for VAS increased by RMB3,171 million, or 36%, from RMB8,893 million in 2011 to RMB12,064 million in 2012. This was mainly driven by increased sharing and content costs for licenced game titles. Staff costs as well as bandwidth and server custody fees also increased as our business scale grew. As a percentage of revenues generated from the same segment, cost of revenues was 34% in 2012, broadly stable compared to 2011.

Cost of revenues for online advertising increased by RMB938 million, or 118%, from RMB795 million in 2011 to RMB1,733 million in 2012. This mainly reflected the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and server custody fees, to the online advertising segment since the fourth quarter of 2011. It also reflected increases in staff costs, sharing and content costs for our search advertising business and commissions payable to advertising agencies. As a percentage of revenues generated from the same segment, cost of revenues increased from 40% in 2011 to 51% in 2012.

Cost of revenues for eCommerce transactions was RMB4,192 million for the year ended 31 December 2012.

Cost of revenues for others decreased by RMB22 million, or 9%, from RMB240 million in 2011 to RMB218 million in 2012.

Gross profit. Gross profit increased by RMB7,119 million, or 38%, from RMB18,568 million in 2011 to RMB25,687 million in 2012. Our gross margin was 59% in 2012 as compared to 65% in 2011.

Interest income. Interest income increased by RMB367 million, or 78%, from RMB469 million in 2011 to RMB836 million in 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB284 million in 2012, compared to other gains, net of RMB421 million in 2011. The change primarily reflected the absence in 2012 of deemed disposal gains of RMB708 million recognised in 2011 as a result of the acquisition of a majority interest in Riot Games Inc. by us from the existing shareholders, including the founders of Riot Games, Inc. (the “**Riot Games Acquisition**”) and the acquisition of additional equity interest in Gamegoo Group Limited, which constituted a step-up business combination (the “**Gamegoo Acquisition**”), and an increase in impairment provision against selected investee companies in 2012. These factors were partially offset by the recognition of a special dividend income of RMB390 million from our investee company Mail.ru and an increase in subsidies and tax rebates in the year ended 31 December 2012.

Selling and marketing expenses. Selling and marketing expenses increased by RMB1,073 million, or 56%, from RMB1,921 million in 2011 to RMB2,994 million in 2012. This mainly reflected an increase in advertising and promotional activities on products and platforms such as online games and mobile applications, as well as spending related to the London Olympic Games. Staff cost also increased along with our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for 2012, broadly stable compared to 2011.

General and administrative expenses. General and administrative expenses increased by RMB2,483 million, or 47%, from RMB5,283 million in 2011 to RMB7,766 million in 2012. This was primarily driven by increases in research and development expenses, staff costs and administrative expenses, partially offset by a decrease in intangible asset amortisation as certain intangible assets acquired through acquisition were fully amortised in the first quarter of 2012. As a percentage of total revenues, general and administrative expenses decreased from 19% in 2011 to 18% in 2012.

Operating profit. Operating profit increased by RMB3,225 million, or 26%, from RMB12,254 million in 2011 to RMB15,479 million in 2012.

Finance (costs)/income, net. We recorded finance costs, net of RMB348 million in 2012 compared to finance income, net of RMB36 million in 2011. The change was mainly driven by higher interest expense and the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in 2012.

Profit before income tax. Profit before income tax increased by RMB2,952 million, or 24%, from RMB12,099 million in 2011 to RMB15,051 million in 2012.

Income tax expense. We recorded income tax expense of RMB2,266 million in 2012 compared to RMB1,874 million in 2011. This primarily reflected: (i) higher profit before income tax; (ii) an increase in deferred tax liabilities recognised in respect of withholding taxes; and (iii) lower reversal of deferred tax liabilities arising from the Riot Games Acquisition. These factors were partially offset by a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB2,560 million, or 25%, from RMB10,225 million in 2011 to RMB12,785 million in 2012. Our profit margin was 29% in 2012 compared to 36% in 2011.

QUARTERLY RESULTS OF OPERATIONS

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

	Three months ended							
	31 Dec 2012	31 Mar 2013	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014	30 Jun 2014	30 Sep 2014
	(RMB in millions)							
Revenues:								
VAS ⁽¹⁾	9,390	10,666	10,752	11,635	11,932	14,413	15,713	16,047
Online advertising eCommerce transactions	947	850	1,297	1,390	1,497	1,177	2,064	2,440
Others.....	1,684	1,914	2,199	2,359	3,324	2,524	1,324	459
	132	118	136	151	217	286	645	862
Total revenues	12,153	13,548	14,384	15,535	16,970	18,400	19,746	19,808
Cost of revenues	(5,273)	(5,954)	(6,590)	(7,036)	(8,198)	(7,800)	(7,574)	(7,167)
Gross profit	6,880	7,594	7,794	8,499	8,772	10,600	12,172	12,641
Interest income	266	277	324	336	377	375	406	452
Other (losses)/gains, net	(202)	351	82	66	405	1,607	691	118
Selling and marketing expenses	(1,095)	(963)	(1,234)	(1,465)	(2,033)	(1,855)	(1,973)	(1,906)
General and administrative expenses	(2,124)	(2,196)	(2,401)	(2,621)	(2,770)	(2,937)	(3,453)	(3,790)
Operating profit	3,725	5,063	4,565	4,815	4,751	7,790	7,843	7,515
Finance (costs)/income, net	(63)	(82)	14	(22)	6	(238)	(354)	(317)
Share of (losses)/profits of associates and joint ventures.....	(41)	119	31	39	(18)	44	23	(139)
Profit before income tax	3,621	5,100	4,610	4,832	4,739	7,596	7,512	7,059
Income tax expense ..	(151)	(1,029)	(926)	(955)	(808)	(1,164)	(1,686)	(1,383)
Profit for the period	3,470	4,071	3,684	3,877	3,931	6,432	5,826	5,676

Notes:

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

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 October 2012 to 30 September 2014. The growth in our quarterly revenues was primarily attributable to increases in revenues from our VAS, driven by growth in PC client games revenues due to the increased popularity of our existing games and the introduction of new games, contributions from smart phone games integrated with Mobile QQ and Weixin, as well as growth in social networks business. Our online advertising business was subject to seasonal fluctuation as advertisers usually reduce their advertising spending around the Chinese New Year holidays in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

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

- our working capital requirements, such as sharing and content costs, staff costs, bandwidth leasing and server custody fees, sales and marketing expenses and research and development expenses; and
- costs associated with the expansion of our business, such as the purchase of servers and network equipment.

We had cash and cash equivalents of RMB12,612 million, RMB13,383 million, RMB20,228 million and RMB33,454 million (US\$5,450 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. Our term deposits included in current and non-current assets were RMB13,716 million, RMB24,698 million, RMB31,043 million and RMB22,126 million (US\$3,604 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively.

Our net current assets were RMB14,320 million, RMB15,844 million, RMB20,419 million and RMB25,875 million (US\$4,215 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. Net current assets increased as of 30 September 2014 as compared to 31 December 2013 primarily due to higher cash and cash equivalents, partially offset by increases in other payables and accruals and deferred revenue in the same period. Net current assets increased in 2013 as compared to 2012 primarily due to higher term deposits, prepayments, deposits and other assets, and cash and cash equivalents, partially offset by increases in other payables and accruals, borrowings and deferred revenues in the same period. Net current assets increased in 2012 as compared to 2011 primarily due to higher cash and cash equivalents and prepayments, deposits and other assets and a decrease in borrowings, which was partially offset by the decrease in restricted cash and the increase in deferred revenues, accounts payable and other payables and accruals.

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

Our accounts receivable were RMB2,021 million, RMB2,354 million, RMB2,955 million and RMB4,293 million (US\$699 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. There are no contractual requirements for telecommunications operators to pay amounts owed to us within a specified period of time, these operators usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit of 90 days after full execution of the contracted advertisement order.

Our accounts payable were RMB2,244 million, RMB4,212 million, RMB6,680 million and RMB7,441 million (US\$1,212 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. We normally settle the amount due to us according to the terms of our contracts.

Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Net cash flows generated from operating activities.	13,358	19,429	24,374	11,952	13,813
Net cash flows used in investing activities.....	(15,355)	(16,270)	(19,134)	(7,471)	(19,423)
Net cash flows generated from/(used in) financing activities.....	4,373	(2,386)	1,708	(2,962)	17,898
Net increase in cash and cash equivalents	2,376	773	6,948	1,519	12,288
Cash and cash equivalents at beginning of year/period	10,408	12,612	13,383	13,383	20,228
Exchanges (losses)/gains on cash and cash equivalents	(172)	(2)	(103)	(110)	123
Cash and cash equivalents at end of year/period	<u>12,612</u>	<u>13,383</u>	<u>20,228</u>	<u>14,792</u>	<u>32,639</u>

Cash Flows from Operating Activities

For the six months ended 30 June 2014, we had a cash flow from operating activities in the amount of RMB13,813 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB14,911 million and changes in working capital in the amount of RMB1,621 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB2,719 million. The changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB2,393 million, (ii) an increase in deferred revenue of RMB1,769 million, (iii) an increase in trade payable of RMB1,636 million, and (iv) a decrease in inventories of RMB728 million, partially offset by (i) an increase in restricted deposit of RMB2,392 million (ii) an increase in prepayments, deposits and other receivables of RMB1,359 million, and (iii) an increase in accounts receivable of RMB1,214 million.

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

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

In 2011, we had a cash inflow from operating activities in the amount of RMB13,358 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB14,017 million and changes in working capital in the amount of RMB1,177 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB1,836 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB2,253 million, (ii) an increase in other payables and accruals of RMB2,874 million, (iii) an increase in accounts payable of RMB828 million, partially offset by (i) an increase in prepayments and deposits of RMB2,630 million, (ii) an increase in restricted cash of RMB1,851 million, (iii) an increase in accounts receivable of RMB251 million, and (iv) a decrease in other tax liabilities of RMB46 million.

Cash Flows used in Investing Activities

Net cash used in investing activities for the six months ended 30 June 2014 was RMB19,423 million, primarily reflecting the payment for interests in associates in the amount of RMB22,110 million and purchase of available-for-sale financial assets of RMB2,652 million, partially offset by net receipt flow of term deposits with initial term of over three months in the amount of RMB6,185 million and interest received of RMB602 million.

Net cash used in investing activities for the year ended 31 December 2013 was RMB19,134 million, primarily reflecting the net payment flow for the term deposits of RMB6,345 million, the payment for interests in associates of RMB4,456 million and the purchase of fixed assets, construction in progress and investment properties of RMB4,788 million, partially offset by interest received of RMB536 million and dividends received of RMB551 million.

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

Net cash used in investing activities for the year ended 31 December 2011 was RMB15,355 million, primarily reflecting the purchase of fixed assets, construction in progress and investment properties in the amount of RMB4,060 million and payments for interests in associates in the amount of RMB3,529 million, payment for restricted cash in the amount of RMB2,055 million and the net payment flow for term deposits in the amount of RMB1,991 million.

Cash Flows from/(used in) Financing Activities

Net cash generated from financing activities for the six months ended 30 June 2014 was RMB17,898 million, primarily reflecting net proceeds from issuance of long-term notes of RMB16,894 million, proceeds from long-term borrowings of RMB1,833 million and proceeds from short-term borrowings of RMB1,254 million, partially offset by dividend paid to the Company's shareholders and the non-controlling interests of RMB1,874 million and repayment of long-term borrowings of RMB216 million.

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

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

Net cash generated from financing activities for the year ended 31 December 2011 was RMB4,373 million, primarily reflecting proceeds from short-term borrowings of RMB6,683 million and net proceeds from issuance of long-term notes of RMB3,761 million, partially offset by repayment of short-term borrowings of RMB3,766 million, payments for repurchase of shares of RMB1,047 million and dividend paid to the Company's shareholders and the non-controlling interests of RMB895 million.

Capital Expenditure

Our capital expenditures consisted of additions (excluding business combinations) to fixed assets which primarily include, computers and servers, construction in progress, land use rights and intangible assets (excluding game and other content licences), were RMB3,689 million, RMB4,493 million and RMB5,799 million and RMB3,115 million (US\$507 million) for the years ended 31 December 2011, 2012 and 2013 and the nine months ended 30 September 2014, respectively.

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

INDEBTEDNESS

Our total borrowings amounted to RMB7,999 million, RMB3,183 million, RMB5,912 million and RMB8,247 million (US\$1,344 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively.

Our total notes payable amounted to RMB3,733 million, RMB7,517 million, RMB9,141 million and RMB26,050 million (US\$4,244 million) as of 31 December 2011, 2012 and 2013 and 30 September 2014, respectively. On 12 December 2011, we completed the issue of the 2016 Notes. The 2016 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2016 Notes will mature on 12 December 2016. See "*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2016 Notes*". On 5 September 2012, we completed the issue of the 2018 Notes. The 2018 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2018 Notes will mature on 5 March 2018. See "*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2018 Notes*". On 10 September 2013, we completed the issue of the 2015 Notes. The 2015 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2015 Notes are non-publicly issued and will mature on 10 September 2015. See "*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2015 Notes*". On 29 April 2014, we completed the issue of the 2017 Notes. The 2017 Notes bear an interest at 2.000% per annum from 29 April 2014; payable semi-annually in arrears on 2 November and 2 May of each year. The 2017 Notes will mature on 2 May 2017. On 29 April 2014,

we also completed the issue of the 2019 Notes. The 2019 Notes bear an interest at 3.375% per annum from 29 April 2014; payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes will mature on 2 May 2019. See “Description of Other Material Indebtedness—U.S. Dollar Borrowings—2017 Notes and 2019 Notes”. On 16 May 2014, we completed the issue of the January 2020 Notes. The January 2020 Notes bear an interest at 3.200% per annum from 16 May 2014; payable quarterly in arrear on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes will mature on 10 January 2020. See “Description of Other Material Indebtedness—Hong Kong Dollar Borrowings—January 2020 Notes”.

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

	As of 31 December			As of 30 September	
	2011	2012	2013	2014	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Current:					
RMB bank borrowings					
— secured ⁽¹⁾	2,959	15	—	—	—
— unsecured.....	—	25	150	125	20
	2,959	40	150	125	20
USD bank borrowings					
— unsecured ⁽²⁾	4,411	943	2,134	1,231	201
Bonds					
— unsecured ⁽³⁾	629	—	—	—	—
Current portion of long-term USD bank borrowings					
— unsecured.....	—	94	305	1,354	221
	7,999	1,077	2,589	2,710	442
Non-current:					
Non-current portion of long-term USD bank borrowings					
— unsecured ⁽⁴⁾	—	2,106	3,323	5,537	902
Total borrowings	7,999	3,183	5,912	8,247	1,344
Current:					
Notes payable ⁽⁵⁾	—	—	—	1,843	300
Non-current:					
Notes payable ⁽⁶⁾	3,733	7,517	9,141	24,207	3,944
Total notes payable	3,733	7,517	9,141	26,050	4,244
Total.....	11,732	10,700	15,053	34,297	5,588

Notes:

(1) No secured bank borrowings as of 30 September 2014.

(2) Unsecured short-term bank borrowings of carrying amount of RMB1,231 million as of 30 September 2014 were denominated in USD. The aggregate principal amount was US\$200 million and the interest rates were LIBOR plus 1.00% per annum.

- (3) In March 2011, we issued U.S. dollar denominated bonds at par value of US\$100 million. The bonds were unsecured and bore a floating rate of LIBOR plus 0.25% per annum. The bonds matured and were fully paid off in March 2012. The Group also entered into foreign exchange forward contracts to purchase the required amount of U.S. dollar with RMB for settling the principal amount of the bonds upon their due dates.
- (4) Unsecured long-term bank borrowing of carrying amount of RMB6,891 million as of 30 September 2014, were denominated in USD. The aggregate principal amount was US\$1,120 million and the interest rate was LIBOR plus 1.37% to 1.97% per annum.
- (5) On 10 September 2013, we issued the 2015 Notes in an aggregate principal amount of US\$300 million that will mature on 10 September 2015. The 2015 Notes bear interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year. The 2015 Notes were issued at 99.766% of the aggregate principal amount.
- (6) On 12 December 2011, we issued the 2016 Notes in an aggregate principal amount of US\$600 million that will mature on 12 December 2016. The 2016 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year. The 2016 Notes were issued at 99.740% of the aggregate principal amount. On 5 September 2012, we issued the 2018 Notes in an aggregate principal amount of US\$600 million that will mature on 5 March 2018. The 2018 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year. The 2018 Notes were issued at 99.771% of the aggregate principal amount. On 29 April 2014, we issued the 2017 Notes in an aggregate principal amount of US\$500 million that will mature on 2 May 2017. The 2017 Notes bear an interest at 2.000% per annum from 29 April 2014, payable semi-annually in arrears on 2 November and 2 May of each year. The 2017 Notes were issued at 99.797% of the aggregate principal amount. On 29 April 2014, we issued the 2019 Notes in an aggregate principal amount of US\$2,000 million that will mature on 2 May 2019. The 2019 Notes bear an interest at 3.375% per annum from 29 April 2014, payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes were issued at 99.895% of the aggregate principal amount. On 16 May 2014, we issued the January 2020 Notes in an aggregate principal amount of HK\$2,000 million that will mature on 10 January 2020. The January 2020 Notes bear an interests at 3.200% per annum from 16 May 2014, payable quarterly in arrear on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes were issued at 100.0% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

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

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Contracted:				
Construction/purchase of building and purchase of land use rights	463	447	2,166	1,835
Purchase of other fixed assets.....	132	142	403	408
Capital investment in investees	817	868	854	3,885
	1,412	1,457	3,423	6,128
Authorised but not contracted:				
Construction/purchase of building and purchase of land use rights.....	1,187	1,109	851	841
Capital investment in investees	652	451	—	—
	1,839	1,560	851	841
Total.....	3,251	3,017	4,274	6,969

Operating Lease Commitments

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

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Contracted:				
Not later than one year	520	533	760	733
Later than one year and not later than five years	1,463	1,360	2,013	1,596
Later than five years	286	288	1,455	1,293
Total	2,269	2,181	4,228	3,622

Other Commitments

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

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Contracted:				
Not later than one year	596	1,052	1,397	1,477
Later than one year and not later than five years	768	1,299	1,299	1,473
Total	1,364	2,351	2,696	2,950

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as of 30 September 2014.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Interest Rate Risk

We have interest-bearing assets including receivables in associates, term deposits and cash and cash equivalents. Our exposure to market rate risk for changes in interest rates relates primarily to our debt (including borrowings and long-term notes issued). Borrowings issued at variable rates expose us to cash flows interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. We have had bank borrowings and issued long-term notes denominated in U.S. dollars and H.K. dollars having variable and fixed interest rates as of 30 September 2014.

Price Risk

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

Credit Risk

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

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

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

Foreign Currency Exchange Risk

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

There is no other written policy to manage the foreign exchange risk in relation to U.S. dollars, H.K. dollars, Euro, Korea Won and New Taiwan Dollar as management considers that such risk cannot be effectively reduced in a low-cost way. In the past, we entered into certain foreign exchange forward contracts arrangements for managing our foreign exchange risk in relation to banks loans denominated in U.S. dollars.

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

Liquidity Risk

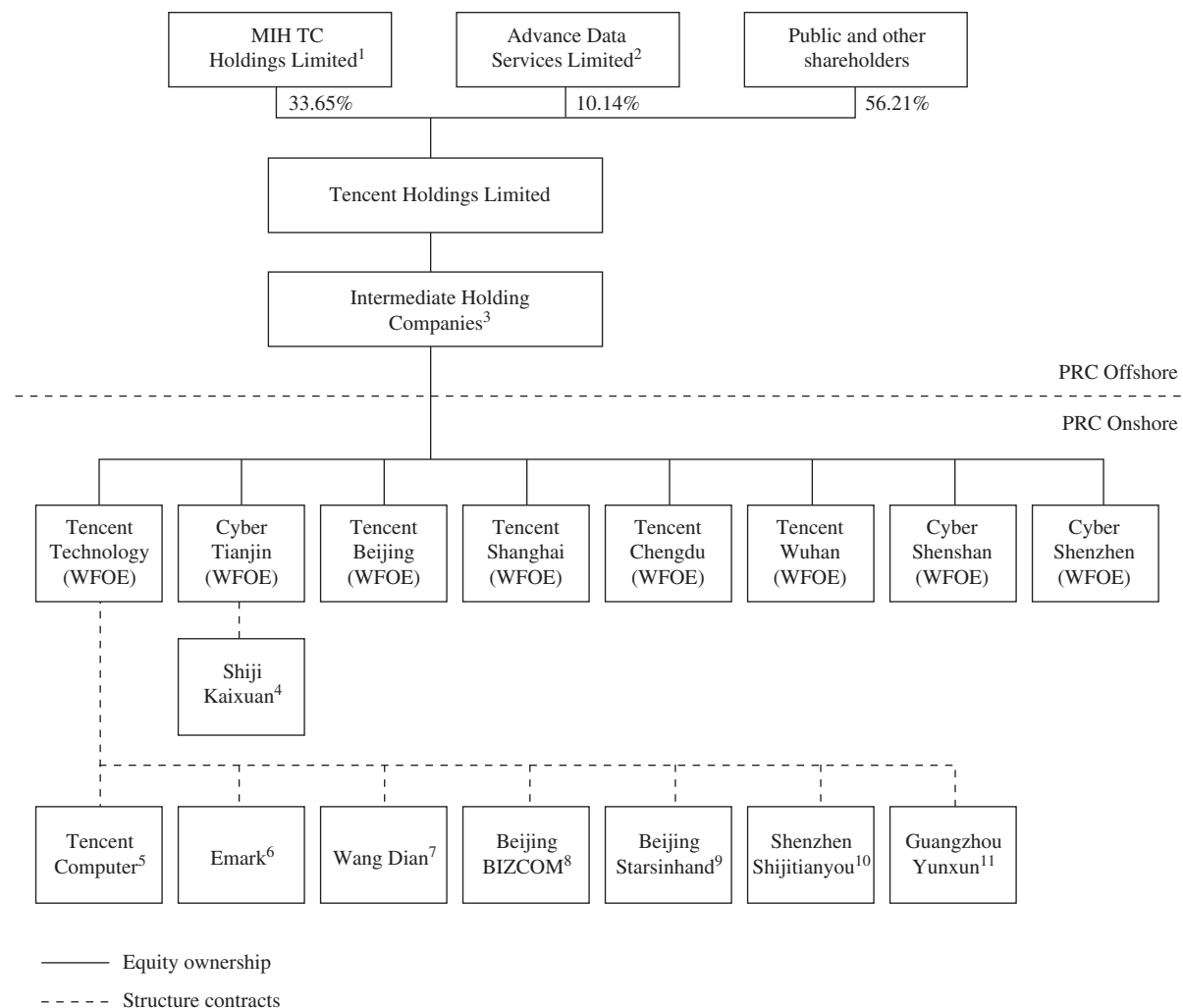
We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of our underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents. In order to improve liquidity, we also issued long-term notes and entered into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

OUR CORPORATE STRUCTURE

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

We were incorporated in the BVI on 23 November 1999 as an international business company with limited liability. We redomiciled to the Cayman Islands on 27 February 2004 and continued as an exempted company with limited liability under the Cayman Islands Companies Law.

The following diagram illustrates our principal corporate and share ownership structure as of 30 September 2014.



Notes:

- (1) MIH TC Holdings Limited is controlled by Naspers Limited through its wholly owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited.
- (2) Wholly owned by Mr. Ma Huateng.
- (3) Intermediate Holding Companies include various Group companies established for the purpose of holding interests in various WFOEs as well as other investments of the Group.
- (4) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (5) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (6) Emark: Beijing Emark Information and Technology Co. Ltd. 北京驛碼神通信息技術有限公司.

- (7) Wang Dian: Nanjing Wang Dian Technology Company Limited 南京網典科技有限公司.
- (8) Beijing BIZCOM: Beijing BIZCOM Technology Company Limited 北京英克必成科技有限公司.
- (9) Beijing Starsinhand: Beijing Starsinhand Technology Company Limited 北京市掌中星天下信息技術有限公司.
- (10) Shenzhen Shijitianyou: Shenzhen Shiji Tianyou Technology Company Limited 深圳市世紀天游科技有限公司.
- (11) Guangzhou Yunxun: Guangzhou Yunxun Technology Company Limited 廣州雲訊信息科技有限公司.

We primarily conduct our PRC operations through our WFOEs, including Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Shanghai, Tencent Chengdu, Tencent Wuhan, Cyber Shenshan and Cyber Shenzhen. The Company holds its interests in the WFOEs through certain intermediate holding companies wholly owned by the Company. Our WFOEs employ a substantial portion of our staff, develop the principal software (other than software acquired from third-party providers) for our operations and hold our principal intellectual property rights.

STRUCTURE CONTRACTS

PRC regulations currently restrict foreign ownership of companies that provide value-added telecommunications services. See also “*General Regulation on Internet and Telecommunications Industries*”. As foreign-invested enterprises, our WFOEs do not have licences to provide Internet content or information services and other value-added telecommunications services. Accordingly, we conduct our value-added telecommunications businesses mainly through Tencent Computer, Shiji Kaixuan and other consolidated affiliated entities, under a series of contractual agreements (collectively, the “**Structure Contracts**”) entered into among our constituent members. Tencent Computer and Shiji Kaixuan are licenced to provide Internet information services and other value-added telecommunications services and operate those services. The shareholders of Tencent Computer and Shiji Kaixuan are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

As a result of the Structure Contracts, the Group is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of, our consolidated affiliated entities. In summary, the Structure Contracts provide the Company through the WFOEs with, among other things:

- the right to receive the cash received by the consolidated affiliated entities from their operations which is surplus to their requirements, having regard to their forecast working capital needs, capital expenditure and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that the WFOEs own the valuable assets of the business through the assignment to the WFOEs of the principal present and future intellectual property rights of the consolidated affiliated entities without making any payment; and
- the right to control the management and financial and operating policies of the consolidated affiliated entities.

The Structure Contracts establish a co-operation committee (the “**Co-operation Committee**”) for each of the consolidated affiliated entities to oversee its business and operations. The Co-operation Committees advise, supervise and effectively control the businesses of the consolidated affiliated entities. Through the Co-operation Committees, the WFOEs advise, supervise and effectively control the business of the consolidated affiliated entities. Under the Structure Contracts, the Co-operation Committees will adopt an internal governance mechanism for payments, expenditure and expenditure-related contracts. Our approval matrix is required to be consistent throughout the Group and can be amended only by the Directors of the Company, and any such amendment applies to all members of the Group.

The Structure Contracts also effectively transfer from the consolidated affiliated entities to the WFOEs all of the cash that is surplus to the requirements of the consolidated affiliated entities, primarily in the form of fees paid for the WFOE's provision of certain technology and information services to the consolidated affiliated entities under the applicable Structure Contracts between the WFOEs and the consolidated affiliated entities. The Co-operation Committee determines and adjusts periodically the fees to be paid by the consolidated affiliated entities to the WFOEs to ensure that all such surplus cash of the consolidated affiliated entities is transferred to the WFOEs.

These arrangements, taken as a whole, permit the results and financial condition of the consolidated affiliated entities to be consolidated with the Company as if they were subsidiaries of the Company and that the economic benefit of their businesses flows to the Company and the WFOEs.

Our PRC legal counsel, Jun He Law Offices, is of the opinion that the Structure Contracts setting forth our contractual arrangements among various of our consolidated affiliated entities and their relevant shareholders have been duly authorised, executed and delivered by the applicable PRC companies and PRC individuals who are parties thereto and that each of the Structure Contracts (i) constitutes a legal, valid and binding obligation of the PRC companies and PRC individuals who are parties thereto and is enforceable against such parties in accordance with its terms, subject, as to enforceability, to bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles; and (ii) is in compliance with, and does not violate any applicable existing requirements of, PRC Laws. In providing their opinion our counsel has noted that there are ongoing uncertainties and risks in this area as further described under "*Risk Factors—Risks Related to our Corporate Structure*" and "*General Regulation on Internet and Telecommunications Industries*".

BUSINESS

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country in terms of daily user reach in September 2014, according to iResearch. Our IM communities include QQ, a cross-platform communication platform, with total MAU of 819.8 million and smart devices MAU of 542.2 million, and Weixin and WeChat, mobile-based communication platform, with combined MAU of 468.1 million as of 30 September 2014. Our IM communities are the most engaged in the PRC with QQ users accounting for 90.4% of monthly time spent on PC IM services, and Mobile QQ and Weixin accounting for 76.5% and 86.1% of monthly active users respectively for Mobile IM services, in September 2014, according to iResearch.

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

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

- **Value-added Services** — Our VAS business mainly consists of online games and social networks services. We offer a diversified game portfolio ranging from PC client games including MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including Qzone and premium services for QQ community. We monetise our VAS business primarily via monthly subscriptions and item-based sales on our SNS platforms and within PC and mobile games or other applications.
- **Online Advertising** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are primarily sold through GDT, a self-service real-time bidding performance advertising platform, and delivered primarily on our SNS platforms and other platforms.
- **eCommerce Transactions** — Our eCommerce transactions business involves B2C eCommerce transaction, sales of merchandise and services on our marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce. We divested our B2C and C2C eCommerce marketplaces due to our strategic transaction with JD.com in March 2014.
- **Others** — Our other services include trademark licensing, software development services and software sales.

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

We commenced our business in November 1998 and went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2013, our total revenues was RMB60,437 million and our profit for the year was RMB15,563 million, an increase of 38% and 22%, respectively, over the year ended 31 December 2012. For the nine months ended 30 September 2014, our total revenues was RMB57,954 million (US\$9,442 million) and our profit for the period was RMB17,934 million (US\$2,922 million), an increase of 33% and 54%, respectively, over the nine months ended 30 September 2013. As of 30 September 2014, our cash and cash equivalents and term deposits amounted to RMB55,580 million (US\$9,054 million).

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

Large and Highly Engaged User Base on PC and Mobile with Strong Network Effect

We operate the largest IM community in the PRC with 819.8 million MAU of QQ as of 30 September 2014. For the three months ended 30 September 2014, we recorded 216.5 million PCU of QQ, up from 180.3 million for the three months ended 31 December 2013. On mobile, we operate three of the top five social platforms in the world as of 3 November 2014 according to We Are Social, a social media agency, with 542.2 million MAU of Mobile QQ on smart devices, 506.3 million MAU of Mobile Qzone on smart devices and 468.1 million combined MAU for Weixin and WeChat as of 30 September 2014. Mobile payment user base expanded over 10 times following the launch of Weixin Payment in August 2013 and QQ Wallet in January 2014. Our large and highly engaged user base creates a strong network effect for our users to interact with one another through IM and our other applications and value-added services, which in turn enables us to retain our existing users and attract new users. In addition, our large user base provides us with the opportunity to market and deliver our value-added services and products. We believe that our large and active user base creates a high barrier to entry, as it is challenging for our competitors to build a similar critical mass of users for their products and services.

Successful Monetisation through Diversified Products and Services

We continuously develop innovative services to expand and enrich the experience of our users and enhance their loyalty to our online communities. To fulfil our users' online lifestyle needs, we offer a wide range of value-added services, such as social networks, digital content, online games and eCommerce services. Our diverse offering of products and services, combined with our large user base, offers us significant monetisation opportunities and enables us to diversify our revenue streams. We generate value-added services revenue from user subscriptions and item-based sales. We have monetised user traffic generated from our IM clients, SNS, video, portals and other platforms through online advertising. By continuing to develop new products and services to meet the rapidly evolving needs of the increasingly sophisticated Internet users, we expect that we will be able to generate additional revenue from new services.

Significant Market Leadership in Multiple Service Areas

We have a strong presence for all of our key products and services, including IM, SNS, online games and online advertising. We believe our leading position is underpinned by our in-depth understanding of the needs of our users and the trends in the market, as well as our strong research and development capability.

- *IM* — We are the leading IM provider in the PRC with QQ having a market share of 90.4% as measured by monthly time spent by users for PC IM services, while Mobile QQ and Weixin have a penetration rate of 76.5% and 86.1% respectively for Mobile IM services as measured by monthly active users in September 2014, according to iResearch.
- *SNS* — We are the leading SNS provider in the PRC with Qzone having a market share of 99.6% on PC and 70.8% on mobile in the PRC as measured by monthly time spent by users on social networking services in September 2014, according to iResearch.
- *Online games* — We are the largest online game operator and game developer in the PRC with a market share of 41.5% for PC online games and 38.8% for mobile games as measured by revenue for the three months ended 30 September 2014, according to iResearch. We operate seven and five of the top ten most popular PC online game titles and mobile game titles respectively in the PRC, according to Baidu online games search ranking as of 31 December 2014. We operate some of the most popular PC online game titles in China, including *Cross Fire*, *QQ Dancer*, *Dungeon and Fighter*, *League of Legends* and *QQ Speed*, each of which had over 1 million PCU in each of the last four quarters ended 30 September 2014. We also operate some of the most popular mobile game titles in China, including *San Guo Zhi Ren*, *Thunder Fighter*, *Timi Run Everyday* and *Xian Jian Qi Xia Zhuan*, each of which had made it to the No. 1 spot on the iOS Top Free Games and Top Grossing Games ranking in China.
- *Online advertising* — We operate portals and mobile applications in the PRC that are go-to destinations for news and video content. Tencent Video is a leading online video platform for both PC and mobile in the PRC in terms of monthly unique visitors in September 2014, according to iResearch. We also operate the QQ.com portal, which had 148.3 million daily average unique visitors in September 2014 and ranked first among all online portals in the PRC and ninth among websites in the world in terms of user traffic as of September 2014, according to Alexa.com. Our mobile application, Tencent News, was the largest mobile news platform in the PRC in terms of monthly active users in September 2014, according to Analysys. We sell brand display advertisements on online video, IM clients, QQ.com and other platforms. Utilising our self-service real-time bidding performance advertising platform, GDT, we also offer performance display advertising solutions on our SNS platforms and other platforms. We had over 1,000 brand display advertisers for our online advertising platforms as of the end of the third quarter of 2014.

Highly Cash Generative Consumer-oriented Business Model

We have consistently generated healthy cash flows from our operations and maintained positive operating cash flows since 2001, even during the past economic downturns, including the global economic slowdown that began in the second half of 2008. A significant majority of our revenue is derived from micro-transactions or subscription revenue generated by our massive user base. We price most of our products and services at an affordable level for the average Internet user, making our earnings and cash flows more resilient to economic cycles. Consequently, our business is generally less affected by global economic slowdowns and domestic macro-tightening measures. We bill and collect a majority of our revenue through prepaid channels, including online banking, our e-sales

system and prepaid Q-Coin cards, which minimises our working capital needs and achieves a high cash flow conversion ratio. In addition, our Internet-based business model demonstrates significant operational scalability and requires low capital expenditures. As of 30 September 2014, our cash and cash equivalents and term deposits amounted to RMB55,580 million (US\$9,054 million).

Stable and Proven Management Team

We have a stable and capable senior management team with extensive operating experience in the PRC Internet and telecommunications industries as well as strong capabilities in developing and executing innovative business strategies. Besides core founders, we have recruited senior management talent from leading global firms, such as Lau Chi Ping Martin, our President and James Gordon Mitchell, our Chief Strategy Officer. We also have competitive training and career development plans in place to continuously build our own teams. The collective experience of our management team brings together a mix of local and international experience, industry knowledge and complementary skill sets which have allowed us to smoothly transition to a large scale, professionally managed company since our IPO. We believe our committed and experienced management team will continue to lead us to further success.

OUR STRATEGIES

Our strategic objective is to strengthen our market leading position and become the hub for fulfilling Internet users' online lifestyle needs. We will undertake strategic initiatives focused on expanding our market shares, diversifying our services and products and sustaining our growth and profitability. In particular, we will seek to:

Further Expand Our User Base and Increase User Engagement

We believe the size of our user base and depth of user engagement in our online communities are our critical competitive advantages. We plan to further expand our user base and increase user engagement by enhancing user experience and broadening our products and services. For example, to capture the increasing integration between the PC and mobile Internet, we have been enhancing the functions and features on our Mobile QQ and Weixin, which integrate value-added services such as online games, news and local services. Such enhancements will further enable us to expand our user base and to deepen user engagement in China and the overseas market.

Further Monetise Our User Base and User Traffic

We seek to broaden and enhance our fee-based value-added services, and promote user subscriptions and item-based sales to increase paying user conversion rate. We are investing to enhance the overall competitiveness of our online advertising platform and online payment infrastructure, and are exploring the synergies between SNS and our other services.

Capture the Emerging Mobile Internet Trend

We are a leading provider of mobile applications which cover a range of categories, including communication, social networks, news, games, video, music, browser and security solutions. As our users demand more mobility and real-time information, we will continue to introduce a growing number of services and applications across a broader range of Internet-enabled mobile devices. We also intend to develop products and services that cater to the needs of smart phone users.

Pursue an Open Platform Strategy That Promotes Innovation and Collaboration

We pursue an open platform strategy and seek to increasingly collaborate with third-party developers and industry partners to further enrich the applications offered on our open platforms, including Qzone, QQ Game Platform and YingYongBao, thus increasing social sharing and interaction among our users. We are extending this open platform strategy from PC to mobile through YingYongBao, an

application store for games and other applications. YingYongBao was ranked No. 3 in China in terms of number of application downloads per day by users as of the third quarter of 2014, according to Analysys. By offering a large number of quality third-party and in-house applications, we endeavour to promote innovation within our open platforms, which we expect will ultimately enhance the value of our open platforms as a whole. Our open platforms are among the leading platforms of their kind in China with more than 3 million registered third party applications on the platforms as of 31 August 2014. More than 70% of the newly-registered developers during the twelve months ended 31 May 2014 are developers of mobile applications.

Pursue Partnerships to Enhance Our Business Portfolio, Secure Proprietary Content, Expand O2O Offering and Grow International Presence

We have entered into partnerships with content providers and vertical category leaders in the PRC, United States, South Korea and emerging markets such as Russia, Brazil, India and Southeast Asia. Our partnerships with game developers, film studios and record labels help us secure valuable intellectual properties, applications and media content to build content offerings on our platforms, differentiate our services from the competition and support business growth. We have also been establishing co-operation opportunities with vertical category leaders in areas including, but not limited to, eCommerce, local services and healthcare to expand O2O services on our platform, as well as leveraging our technical and operational know-how to deliver quality Internet and mobile applications and services to users in international markets. We selectively invest in some of our partners to further deepen our relationship with them. We intend to continue pursuing these opportunities that will strengthen our position as the hub for fulfilling people's online lifestyle needs.

RECENT DEVELOPMENTS

On 21 October 2014, we issued the 2.90% Senior Notes in an aggregate principal amount of HK\$1,200 million (the “**April 2020 Notes**”) for general corporate purposes under the Programme. The April 2020 Notes were issued at 100.0% of the aggregate principal amount. Interest on the April 2020 Notes will be payable annually in arrear on 21 October of each year. The April 2020 Notes will mature on 21 April 2020. The April 2020 Notes are constituted by, are subject to and have the benefit of a trust deed dated 10 April 2014 in connection with the Programme. The terms and conditions applicable to the April 2020 Notes are set forth in the relevant pricing supplement.

SERVICES AND PRODUCTS

Leveraging our large user base, as well as our strategic relationships with telecommunications operators, device manufacturers, content providers and advertisers, we are continuously expanding our services and products as well as the channels to deliver them to our users. We continuously produce and source new content that seeks to appeal to and engage our target consumers for value-added services.

Communication Platforms

IM provides a foundation for our online community and serves as a gateway to our value-added services. We are one of the early developers of IM services in the PRC as demonstrated by the launch of QQ in February 1999. We intend to continue leveraging the popularity of our QQ service to deliver value-added community and entertainment services to our expanding QQ user base both on PC and on mobile.

QQ

QQ is our free IM service that allows users to send and receive instant messages and participate in the QQ community. It allows users to meet new friends and establish new social circles based on location and interests. In addition, via the QQ IM client, our users can have access to a variety of our services such as QQ Mail, Qzone and QQ Game Platform.

Weixin and WeChat

While the overall IM user growth rate has slowed due to increased scale and reduced growth of the PRC Internet market, the growth of our mobile IM user base has outperformed that of the overall IM user base. To capture the growth of mobile Internet usage in the PRC, we have developed and operated Weixin, a mobile social communications services since 2011. In addition to connecting with people, Weixin has become a hub of mobile connectivity in which we connect our users with a wide variety of services including but not limited to shopping, local services, entertainment and travel. On the international front, we have made significant progress in the overseas mobile Internet market, in particular South East Asia, through WeChat, a sister platform to the Weixin mobile social communication service for the overseas mobile market. Going forward, we expect that mobile Internet will become an increasingly important driver for the expansion of our online communities.

In August 2013, we introduced Weixin Payment, a built-in payment service that enables banking transactions through selected online and offline merchants via our Weixin platform. It primarily allows users to make payments within Weixin, Weixin official accounts, mobile applications, such as games, and offline channels.

Media platforms

QQ.com

Our QQ.com portal provides users with information and community resources via various channels such as news, finance, sports, entertainment and automobiles. The landing page and certain major channels of QQ.com offer personalised communications and information-sharing services for our users and also improve integration with our media platforms, including online video and microblog.

Tencent Video

We offer premium video content including drama series, movies, variety shows and animation, which are licenced from domestic and overseas content providers. Users can view video content free of charge from both our P2P video service (QQ Live) on our video web portals (v.qq.com and film.qq.com) and Tencent Mobile Video application. We also partner with Warner Bros. Entertainment Inc. and the National Basketball Association to offer subscription packages and video-on-demand services for our users to view exclusive video content.

Business Segments

VAS

Our VAS business mainly consists of online games and social networks services. Our VAS revenues mainly comprise of subscription revenues and item-based sales from our online games, VIP membership services and item-based sales on our platforms. While most of the basic features of our VAS are free-of-charge, users can choose to pay for virtual items, special privileges and premium features. Our VAS revenues were RMB44,985 million for the year ended 31 December 2013 and RMB46,173 million (US\$7,522 million) for the nine months ended 30 September 2014 and accounted for 75% of our total revenues for the year ended 31 December 2013 and 80% of our total revenues for the nine months ended 30 September 2014.

Online Games

We are the largest online game operator and game developer in the PRC with a market share of 41.5% for PC online games and 38.8% for mobile games as measured by revenue for the three months ended 30 September 2014, according to iResearch. We operate QQ Game Platform, which is a leading and popular casual game platform in the PRC in terms of PCU. Some of our most popular self-developed

and licenced games include *Cross Fire*, *QQ Dancer*, *Dungeon and Fighter*, *FIFA Online 3* and *League of Legends*. In August 2013, we introduced game centres on our key mobile social communications platforms, Mobile QQ and Weixin, which allows smart phone users to play games solo or invite their friends to play together online. Some of our most popular self-developed and licensed mobile games include *San Guo Zhi Ren*, *Thunder Fighter*, *Timi Run Everyday* and *Xian Jian Qi Xia Zhuan*. In January 2014, we expanded our presence to offer mobile games to the international users through the game centre on WeChat.

We currently allow our registered users to play a majority of our games for free. Our online games revenue is derived primarily from sales of virtual items, such as Avatars and accessories that enhance game play experience, and subscription fees for membership services, which provide special privileges, premium game features and discounts on in-game items. These items and services allow players to utilise more functions, improve game character performance and skills and personalise the appearance of a game character. Our online games revenues were RMB31,966 million for the year ended 31 December 2013 and RMB32,792 million (US\$5,342 million) for the nine months ended 30 September 2014. Online games revenues accounted for 53% of our total revenues for the year ended 31 December 2013 and 57% of our total revenues for the nine months ended 30 September 2014.

Our main categories of online games are PC client games including the QQ Game Platform, ACGs and MMOGs, and mobile games. The games that we operate are developed in-house or licenced from third parties. We intend to release a number of in-house and licenced games each year. We have worked with other major game developers and operators from the PRC, South Korea, Japan, the United States, and Germany and customised and localised their games to suit the culture and needs of the PRC market.

QQ Game Platform. As of 30 September 2014, we offered 77 in-house and third-party web games and more than 130 MCGs, including card games, board games, chess and other evergreen game genres, through QQ Game Platform.

ACG. As of 30 September 2014, we offered 15 game titles, covering game genres including music, first-person shooting, car racing, sports, combat and multiplayer online battle arena games. For the three months ended 30 September 2014, our ACGs recorded 7.7 million in combined ACU.

MMOG. As of 30 September 2014, we offered 20 game titles, with game genres including action, combat and strategy. The interactive and group-oriented nature of these games means that the large size of our user base significantly contributes to retaining our current users and attracting new users. For the three months ended 30 September 2014, our MMOGs recorded 1.7 million in combined ACU.

Mobile Games. We currently offer mobile games for feature phone and smart phone users including single downloads, WAP games and mobile game apps. Since August 2013, we have launched games through the game centres of our key social communications platforms, Mobile QQ and Weixin. We currently offer 32 game titles through the game centres on Mobile QQ and Weixin. Our Mobile QQ and Weixin game centres have a large user base, with over 180 million total daily active user accounts for all games and six titles exceeding 10 million daily active user accounts, in each case as of March 2014. We have repositioned our application store, YingYongBao, as a distribution hub for proprietary and third party applications including games, with peak daily application downloads exceeding 100 million in October 2014.

Social Networks

Our social networks include social networking websites, premium membership services and other interactive products. The basic features of our community value-added services are generally provided for free. We primarily offer item-based sales and subscriptions for premium services and products. We intend to improve user activeness and interaction through enhancements in content, functionalities, diversity of third-party applications and online and offline member privileges.

We operate multiple open platforms on PC and mobile with a large user base across different sectors of the Internet market, including SNS, online games and application store. We also operate game centres on Mobile QQ and Weixin. We generate item-based sales revenue from in-house and third-party applications offered through our open platforms.

Our social networks revenues were RMB13,019 million and RMB13,381 million (US\$2,180 million) for the year ended 31 December 2013 and for the nine months ended 30 September 2014, respectively. Social networks revenues accounted for 22% of our total revenue for the year ended 31 December 2013 and accounted for 23% of our total revenues for the nine months ended 30 September 2014.

Qzone. Qzone is our SNS platform that permits users to write blogs, keep diaries, upload photos, listen to music and engage in other premium services which can be shared among designated peer groups organised and accepted by the users. Users may purchase items or subscriptions that allow access to all services without additional costs. As of 30 September 2014, Qzone had 628.9 million monthly active user accounts and Mobile Qzone had 506.3 million monthly active user accounts on smart devices.

QQ Membership. Since its inception in 2000, QQ Membership has developed into a premium membership brand through which we provide our premium customers a range of privileges associated with IM, online games, online and offline lifestyle services and eCommerce. We also offer Super VIP subscription services which consist of privileges for both PC and mobile devices to cater to the increasing needs of mobile Internet usage.

Other VAS. We provide a growing list of VAS services to meet the diversifying needs of our users. These services include QQ Music and QQ Book.

Online Advertising

We offer a broad range of advertising formats and solutions, including brand display advertising (such as advertising on online video, IM clients and portals) and performance display advertising on SNS and other platforms. Our brand display advertising clients include domestic and international companies from a variety of industries, including food and beverages, automobile, online service, consumer electronics and real estate industries. We also have small and medium enterprise advertisers for performance display advertising. Our online advertising revenues were RMB5,034 million for the year ended 31 December 2013 and RMB5,681 million (US\$926 million) for the nine months ended 30 September 2014 and accounted for 8% and 10% of our total revenues for the relevant period.

Brand Display

Our brand display advertisements are charged primarily at cost per time or per impression and may be displayed in various formats on our online video, IM clients, portals and other platforms.

Performance Display

Performance display advertisements are charged primarily at cost per click and are offered mainly through the real-time bidding system of our targeted advertising platform. Advertisers can place performance display advertisements through GDT primarily on our SNS platforms and other platforms based on our user targeting algorithm. Started in 2011, GDT is a self-service real-time bidding performance advertising platform. With huge traffic and unparalleled targeting capability, GDT enables advertisers to deliver their advertisements to highly targeted audiences. GDT advertisements are mainly loaded on our social platforms such as QQ, Qzone, Weixin and QQ Music, as well as third-party applications covered by our advertising networks.

eCommerce Transactions

Our eCommerce platforms historically comprised our B2C principal platform and marketplace, C2C marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce. Our online shopping services are offered free-of-charge for the buyers, while in certain marketplaces, merchants are charged service fees and commissions. For the year ended 31 December 2013, revenues from eCommerce transactions were RMB9,796 million, accounting for 16% of our total revenues. For the nine months ended 30 September 2014, revenues from eCommerce transactions were RMB4,307 million (US\$702 million), accounting for 7% of our total revenues. Pursuant to the terms of our strategic cooperation agreement with JD.com, we disposed of our interests in our QQ Wanggou B2C and PaiPai C2C marketplace businesses, logistics personnel and assets, as well as a minority stake in Shanghai Icon. In addition, JD.com obtained the call option to acquire the remaining stake held by the Group in Shanghai Icon. Under the strategic cooperation agreement, JD.com has become Tencent's preferred partner for all physical goods eCommerce businesses. We believe this will allow us to best meet our goal of continuing to provide the best eCommerce experience for users of our platforms.

Others

Others include trademark licensing, software development services and software sales. Our revenues from others were RMB622 million for the year ended 31 December 2013 and RMB1,793 million (US\$292 million) for the nine months ended 30 September 2014.

Licensing and Development

We licence our trademarks from time to time to increase our brand recognition and further penetrate the consumer market in the PRC. We have licenced the QQ brand to manufacturers of various products, including electronic and consumer goods products. Our trademarks have also appeared along with trademarks of other corporate entities for joint marketing, co-branding and merchandising initiatives.

SALES AND MARKETING

We believe that our large QQ and Weixin user base in themselves, are key drivers of our business growth, as many Internet users in the PRC seek to join an established and vibrant online community. We market our value-added services primarily via our platforms and portals. In our online community, "word of mouth" is important for the adoption of value-added services as positive feedback from users can be quickly communicated via various channels, including QQ, Weixin and Qzone. We market our advertising services through a dedicated sales force across the country.

Our sales and marketing efforts are supported by a network of marketing and sales teams throughout the PRC. We conduct a variety of online and offline marketing and promotion activities, including joint marketing activities with telecommunications operators and device manufacturers, in-game promotional events, marketing, and advertisements on our portals. For example, in 2012, we launched nationwide corporate branding and cross-platform promotional campaigns in the PRC for the 2012 Summer Olympic Games to enhance our brand image and media influence. Going forward, we will further enhance our position as a mainstream media platform in the PRC. For sales and marketing outside the PRC market such as the promotional campaigns for WeChat, we will also utilise both online and offline marketing and promotional activities to enhance our brand awareness.

DISTRIBUTION AND PAYMENT METHODS

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

Q-Coin Cards

We have arrangements with retailers and sub-distributors to sell prepaid Q-Coin cards at approximately 700,000 distribution points in the PRC, including Internet cafes, newsstands, convenience stores, software stores and book stores as of 30 September 2014. We sell prepaid Q-Coin cards in bulk at wholesale rates and do not offer any refund or return mechanisms after the Q-Coin cards are sold to the retailers and sub-distributors. Each prepaid Q-Coin card contains a unique access code and password that enables users to redeem the stored value to increase the balance of their individual online accounts or to purchase our services.

E-sales System

We have arrangements with Internet cafes and other retailers across the PRC to sell Q-Coins and usage credit through an e-sales system. Under the e-sales system, Internet cafes and other retailers purchase Q-Coins and usage credit in bulk at a wholesale rate from us via bank transfers, and then resell them to users at the local retail outlet. We do not offer any refunds after the Q-Coins and usage credit are sold to retailers. The e-sales system is an efficient way to sell our services to our customers because they can access our services immediately at the retailer's premises, and no physical distribution of prepaid cards is required.

Telecommunications Operators

A portion of the fees for our VAS are collected through China Mobile, China Unicom and China Telecom. The telecommunications operators collect the fees for our services from their customers and pass such fees to us after withholding their portion of their service fees and imbalance fees. On a periodic basis, we confirm with each telecommunications operator the subscription information and the data transmission volume between our network gateway and the operator's mobile gateway. Each affiliate or branch operator of the PRC telecommunications operators will also provide us with a summary on a monthly basis as to the net fees payable to us by the affiliate or branch operator. We also receive information on customer payment status and coordinate with the telecommunications operators for final billing and collection of revenue.

Online Banking

Users can directly purchase Q-Coins and a majority of our services and products through online payment systems that facilitate online payments from most major commercial banks within the PRC.

STRATEGIC RELATIONSHIPS

We are focused on enriching our value-added services and expanding the networks over which we deliver these services. We maintain strategic relationships with telecommunications operators in the PRC and major domestic and foreign device vendors and device manufacturers. In addition, while we develop a significant number of our services and products through in-house development teams, we also licence and collaborate with an increasing number of third-party content providers, application developers, merchants and manufacturers.

Relationships with Telecommunications Operators

We have strategic relationships with the telecommunications operators in the PRC through which we use their networks to deliver our services and products. Our large user base and innovative applications increase demand for traffic on telecommunications networks. We currently maintain strategic relationships with China Mobile, China Unicom and China Telecom.

Relationships with Device Manufacturers

We currently work with a number of domestic and international major device manufacturers and we believe that our co-operation with them is mutually important and beneficial. Device manufacturers assist in the distribution of our services by making our client software and applications readily available in the devices they manufacture. At the same time, our applications create market demand for more sophisticated devices capable of supporting and interfacing with our applications.

Relationships with Content Providers and Application Developers

Our relationships with content providers and application developers are important to us as we strive to expand our value-added services. The goal of our content and application partnerships is to provide our users with a broad offering of attractive content and applications. We currently have strategic relationships with a number of content providers including mobile and portal content providers, news and printed media, music content providers, real-time financial quote services providers and game and application providers, and we expect to continue to grow these relationships going forward.

COMPETITION

The Internet industry in the PRC is rapidly evolving and competition is expected to further intensify. We face significant competition in almost every aspect of our business, particularly from companies that provide communication, online games, social networking, social media and/or other products and services. In recent years, more foreign investors have begun to explore the opportunities arising from the emerging PRC Internet industry. Many of these Internet start-ups and companies are well funded by private equity or venture capital funds, which have resulted in an increasingly competitive industry landscape. Our competitors for providing VAS in the PRC are mainly local Internet companies who offer various online games, SNS and other online entertainment and communication services, as well as competitors along the value chain of the telecommunications industry including mobile device manufacturers, chip manufacturers, telecommunications operators and mobile content/service providers. We compete for online advertising with other websites that sell online advertising services in the PRC through display and search advertising. In addition, we indirectly compete for advertising budgets with traditional advertising media in the PRC, such as terrestrial or satellite broadcasting media like television and radio stations, printed media such as newspapers and magazines, and major out-of-home media.

We believe that as we continue to expand our business scope, we will encounter new competitors and competitive environments that might evolve over time. In addition, we may face increased competition from international competitors that may establish joint venture companies with local companies to provide services based on the foreign investors' technology and experience developed in overseas markets.

We believe the principal competitive factors in our business include size of user base, community cohesiveness and interactivity, brand recognition, understanding of user needs, technology, product development capabilities and pricing. We aim to compete by continuing to develop, acquire and licence technologies, services and products that bring quality user experiences to our target users.

INTELLECTUAL PROPERTY

We regard our patents, copyrights, trademarks and other intellectual property as critical to our success. We rely primarily on a combination of patent, trademark, copyright, trade secret and other intellectual property-related laws and contractual restrictions to establish and protect our intellectual property rights. We require substantially all of our employees enter into agreements requiring them to keep confidential all proprietary and other confidential information relating to our customers, methods, technology, business practices and trade secrets and such obligations shall survive the expiration or earlier termination of their employment with us. Our employees are required to acknowledge and recognise that all inventions, trade secrets, works of authorship, developments and other processes,

whether or not patentable or copyrightable, made by them during their employment are our property. We have independently developed key software used in our business and have registered a number of these software copyrights. We currently have over 1,700 patents that cover our self-developed key technologies and infrastructure.

Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our authorisation. Furthermore, the validity, enforceability and scope of protection of intellectual property rights in the Internet and telecommunications-related industries are uncertain and still evolving. Infringement and misappropriation of our intellectual property could materially harm our business. We have been and may in the future be involved as an applicant or opposing party in several administrative actions involving trademark disputes. See *“Risk Factors—Risks relating to Our Business—We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business”*.

We have registered the domain names, including “www.qq.com” and “www.tencent.com”, with Internet Corporation for Assigned Names and Numbers and the domain names “www.tencent.com.cn” and “www.rtx.com.cn” with CNNIC, a domain name registration organisation in the PRC. In addition, we have registered over 2,800 domain names with various domain name registration services as of 30 September 2014.

Our “QQ (stylised)” mark, the “penguin” device, the “Weixin” and “WeChat” marks and many associated marks have been registered as trademarks in various classes in the PRC, Hong Kong and other jurisdictions. We have also registered our “QQ (stylised)” mark and the “penguin” device in various classes in jurisdictions including the United States, Japan, Hong Kong, Singapore, India, Malaysia, and the European Union. In addition, a series of “QQ” marks, the “penguin” device and the “Weixin” and “WeChat” marks have also been registered as copyrighted artworks in the PRC.

RESEARCH AND DEVELOPMENT

We believe that our ability to develop IM technology and Internet, mobile and online entertainment applications has been a key factor in the success of our business. To maintain and enhance our leadership position, we will need to continue to invest in research and development in order to enhance our services and products. Currently, our research and development staff constitutes approximately 50% of our full-time employees. Research and development expenses constituted 9%, 10%, 8% and 9% of our total revenues for the years ended 31 December 2011, 2012, 2013, and for the nine months ended 30 September 2014, respectively. Our self-developed technologies include IM technology, mobile services, SNS and other interactive technologies. We also licence some services and technologies from third parties such as database technology and audio/video codec technology. We have established an in-house Research Institute and an integrated Customer Research and User Experience Design Center. We will continue to develop our core technologies in-house and when required, licence technology from third parties.

NETWORK INFRASTRUCTURE

Our network infrastructure is built to satisfy the requirements of our operations and to support the growth of our business. Our servers and routers are located across the PRC and our systems are designed for scalability and reliability to support growth in our user base. We believe we have developed and are operating one of the largest and most sophisticated cloud computing infrastructures in the PRC.

We believe that our current network facilities and broadband capacity provide us with sufficient capacity to carry out our current operations. We believe that we can expand our network facilities and broadband capacity as needed to accommodate our growth.

CUSTOMER SERVICE AND TECHNOLOGY SUPPORT

We place a high priority on providing our users with a consistently high quality of service and support. We have dedicated customer service teams to handle general product and service inquiries, billing questions, online security and technical support issues 24 hours a day, 7 days a week. Customers can access our customer service teams through various channels such as 24-hour customer service hotline, website and online self-help service centre.

SUPPLIERS AND CUSTOMERS

For the nine months ended 30 September 2014, none of our customers accounted for more than 5% of our total revenue. Our customers primarily included retailers and distributors who purchase prepaid Q-Coin cards from the Company, other users who purchase other products and services and advertisers who place advertisements on our platforms. For the year ended 31 December 2013, our largest supplier accounted for less than 25% of our total purchases from our suppliers. Our suppliers primarily include telecommunications operators, content providers, server and IT equipment suppliers and merchandise suppliers. As of 30 September 2014, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owned more than 5% of our issued capital) had an interest in any of the major customers or suppliers noted above.

The telecommunications operators typically settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit of 90 days after full execution of the contracted advertisement order.

EMPLOYEES

The number of employees employed by us varies from time to time, depending on needs. Our employee count was 17,446, 24,160, 27,492 and 26,284 as of 31 December 2011, 2012, 2013 and 30 September 2014, respectively. Most of our employees are based in the PRC.

The remuneration policy and package of our employees are periodically reviewed. Apart from pension funds and in-house training programs, discretionary bonuses, share awards, and share option may be awarded to employees according to the assessment of individual performance. Our total remuneration costs (including capitalised remuneration cost) were RMB4,879 million, RMB7,724 million, RMB10,364 million and RMB11,235 million (US\$1,830 million) for the years ended 31 December 2011, 2012, 2013 and the nine months ended 30 September 2014, respectively.

All of our management and key executives, and substantially all of our other employees, have entered into employment agreements with us, which contain confidentiality and non-competition provisions.

PROPERTIES AND FACILITIES

Our executive offices and our major operational facilities are located in Shenzhen. We own properties in a number of cities in the PRC, including Shenzhen, Beijing, Chengdu, Shanghai, Tianjin and Dalian and lease other offices in the PRC and abroad, including the United States, Thailand, India, Taiwan, South Korea and Hong Kong. We also maintain an Internet data centre in Tianjin. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

INSURANCE

Insurance companies in the PRC offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business interruption insurance is available to a limited extent in the PRC, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to subscribe for such insurance. As a result, we do not have any business liability,

disruption or litigation insurance coverage for our operations in the PRC. Any business disruption or litigation, or any liability or damage to, or caused by, our facilities or our personnel may result in our incurring substantial costs and the diversion of resources. We carry mandatory automobile liability insurance and property insurance. Besides mandatory social insurance, we also maintain commercial health insurance and life insurance coverage for all our employees.

LEGAL PROCEEDINGS

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, unfair competitive practice claims, labour and employment claims and other matters. Internet media companies are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights and other allegations based on the content available on their website or services they provide. See “*Risk Factors—Risks Related to our Business—We face uncertainties regarding the legal liability for providing third-party services, content and applications on our platforms*”, “*Risk Factors—Risks Related to our Business—We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business*” and “*Risk Factors—Risks Related to our Business—Legal proceedings or allegations of impropriety against us could have a material adverse effect on our reputation, results of operations and financial condition*”. Other than the matters set forth below, we are not currently a party to any material litigation or legal proceeding.

In August 2011, we brought a lawsuit to the Higher People’s Court of Guangdong Province against Beijing Qihoo Technology Co., Ltd. and Qizhi Software (Beijing) Co., Ltd. (together, “**360**”) for unfair competition, claiming that 360’s “Kou Kou Bodyguard” product improperly interfered with the lawful operation of our products, and we therefore claimed for damages in the amount of RMB125 million. The court held for us in April 2013 by ordering 360 to pay damages in the amount of RMB5 million. The verdict was upheld on appeal in February 2014 and is final.

In December 2011, we received a notice from the Higher People’s Court of Guangdong Province of claims brought by Beijing Qihoo Technology Co., Ltd. against us, alleging unfair competitive practices by us, including hindering the ability of our IM users to use online security products offered by 360 and offering our own online security products as a component of our IM user software. Beijing Qihoo Technology Co., Ltd. seeks, among other things, damages in the amount of RMB150 million and cessation of the aforementioned practices. In March 2013, the Higher People’s Court of Guangdong Province issued its first-instance judgement on this case rejecting all claims made by Beijing Qihoo Technology Co., Ltd. The latter refused to accept the judgement and appealed to the Supreme People’s Court. On 16 October 2014, the Supreme People’s Court granted its final judgement, rejecting Beijing Qihoo Technology Co.’s appeal and upholding the first-instance judgement.

In February 2012, Jiangping Xie, Cheng Feng, Ansoo Chang Wang and Monique Meng-en Wei (collectively, the “**Plaintiffs**”) initiated legal proceedings against us, claiming that our technical solution for implementing instant messaging through QQ IM software and QQ number infringed the plaintiff’s patent rights. The Plaintiffs sought an immediate stop to the use of this technical solution by us. In March 2013, Shenzhen City Intermediate People’s Court issued its first-instance judgement on this case, rejecting all claims made by the Plaintiffs. The Plaintiffs then appealed to Higher People’s Court of Guangdong Province. On 2 September 2014, the Higher People’s Court of Guangdong Province granted its final judgement, rejecting the Plaintiffs’ appeal and upholding the first-instance judgement.

DIRECTORS AND MANAGEMENT

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

DIRECTORS

Our Board currently consists of seven Directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The following table sets out the name, age and position of our Directors as of the date of this Offering Circular:

Name	Age	Position
Ma Huateng	43	Executive Director/Chairman of the Board/ Chief Executive Officer
Lau Chi Ping Martin	41	Executive Director/President
Jacobus Petrus (Koos) Bekker .	62	Non-executive Director
Charles St Leger Searle	50	Non-executive Director
Li Dong Sheng.....	57	Independent Non-executive Director
Iain Ferguson Bruce	73	Independent Non-executive Director
Ian Charles Stone.....	63	Independent Non-executive Director

Executive Directors

Ma Huateng, age 43, is an Executive Director, Chairman of the Board and Chief Executive Officer of the Company. Mr. Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr. Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr. Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr. Ma is a deputy to the 5th Shenzhen Municipal People's Congress and the 12th National People's Congress. Mr. Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 21 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which holds shares of the Company and also a substantial shareholder of the Company.

Lau Chi Ping Martin, age 41, is an Executive Director and President of the Company. Mr. Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr. Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an Executive Director. Prior to joining the Company, Mr. Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr. Lau received a Bachelor of Science degree in Electrical Engineering from the University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr. Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong. On 10 March 2014, Mr. Lau was appointed as a director of JD.com, Inc., an online direct sales company in China, which has been listed on NASDAQ Stock Market since May 2014. On 31 March 2014, Mr. Lau was appointed as a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, which has been listed on New York Stock Exchange since April 2014.

Non-executive Directors

Jacobus Petrus Bekker, also known as Koos, age 62, has been a Non-executive Director since November 2012. Mr. Bekker is one of the founding members of M-Net/MultiChoice South Africa pay-television business in 1985. He was also a founder of the cellular telephony business MTN. From 1997 to March 2014, Mr. Bekker was the managing director and Chief Executive Officer of Naspers Limited, a company listed on the Johannesburg Stock Exchange and the controlling shareholder of the Company. He is at present the chairman designate. He served on the local organising committee for the 2010 FIFA World Cup. Mr. Bekker obtained a Bachelor of Arts degree in law and an honours degree in languages at the University of Stellenbosch in 1974 and 1975 respectively. He also obtained a Bachelor of Laws degree from University of the Witwatersrand in 1978 and an MBA degree from Columbia University in 1984. Mr. Bekker was awarded an honorary doctorate degree in commerce from the University of Stellenbosch.

Charles St Leger Searle, age 50, has been a Non-executive Director since June 2001. Mr. Searle is currently Chief Executive Officer of Naspers Internet Listed Assets. Prior to joining the Naspers group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr. Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with Naspers Limited, the controlling shareholder of the Company, and he is a director of Mail.ru Group Limited that is listed on London Stock Exchange. Mr. Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr. Searle has more than 21 years of experience in the telecommunications and Internet industries.

Independent Non-executive Directors

Li Dong Sheng, age 57, has been an Independent Non-executive Director since April 2004. Mr. Li is the Chairman and Chief Executive Officer of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr. Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the SEHK. Mr. Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on New York Stock Exchange Euronext. Mr. Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 20 years of experience in the information technology field.

Iain Ferguson Bruce, age 73, has been an Independent Non-executive Director since April 2004. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr. Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 50 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and a fellow of the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr. Bruce is the Chairman of KCS Limited, and is an independent non-executive director of Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. Mr. Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Louis XIII Holdings Limited (formerly known as Paul Y. Engineering Group Limited), a construction, engineering services and hotel development company, Sands China Ltd., an operator of integrated resorts and casinos, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the SEHK. Mr. Bruce is also an independent non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the

New York Stock Exchange. Mr. Bruce was an independent non-executive director of China Medical Technologies, Inc., a China-based medical device company that was listed on NASDAQ Stock Market, up to 3 July 2012, and Vitasoy International Holdings Limited, a beverage manufacturing company that is publicly listed on the SEHK, up to 4 September 2014.

Ian Charles Stone, age 63, has been an Independent Non-executive Director since April 2004. Mr. Stone is an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. Prior to this he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. His career in the last 20 years has been primarily in leading mobile telecoms businesses, and new wireless and internet technology. Since 2011, Mr. Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong, China, South East Asia and the Middle East. Mr. Stone has more than 44 years of experience in the telecom and mobile industries. Mr. Stone is a fellow member of The Hong Kong Institute of Directors.

Senior Management (Non-Directors)

Xu Chenye, age 43, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr. Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr. Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr. Xu received a Bachelor of Science degree in Computer Science from Shenzhen University in 1993 and a Master of Science degree in Computer Science from Nanjing University in 1996.

Ren Yuxin, age 39, Chief Operating Officer and President of Interactive Entertainment Group and Mobile Internet Group, joined the Company in 2000 and had served as General Manager for the value-added services development division and General Manager for Interactive Entertainment business division. Since September 2005, Mr. Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr. Ren has been appointed as Chief Operating Officer and is now in charge of the Interactive Entertainment Group, Mobile Internet Group and Social Network Group. Prior to joining the Company, Mr. Ren has worked in Huawei Technologies Co., Ltd. Mr. Ren received a Bachelor of Science degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008.

James Gordon Mitchell, age 41, Chief Strategy Officer and Senior Executive Vice President, joined the Company in August 2011. He is responsible for various functions, including the Company's strategic planning, strategic implementation, and investor relationships. Prior to joining the Company, Mr. Mitchell had worked in investment banking for 16 years. Most recently, Mr. Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analysed Internet, entertainment and media companies globally. Mr. Mitchell received a degree from Oxford University and holds a Chartered Financial Analyst Certification.

Lau Seng Yee, age 48, Senior Executive Vice President and President of Online Media Group, joined the Company in 2006 and is responsible for overseeing the Company's online media business, and the development of the Company's online advertising business model, as well as the branding strategies for the Company. Mr. Lau is a seasoned professional in the media industry with more than 20 years of solid experience working, with a rare 20 years of on-ground China market experience. In 2007, Mr. Lau sat in the advisory board for ad:tech, the globally renowned organisation for Online Marketing. Mr. Lau held the post of Vice President of China Advertising Association since 2007, as well as the Visiting Professor of Shanghai Normal University. In 2010, Mr. Lau was appointed as the Adjunct

Professor of School of Journalism and Communication of Xiamen University. In 2014, he was called upon by Fudan University to perform the same duty. Prior to joining the Company, Mr. Lau was the Managing Partner of Publicis China and Chief Executive Officer for BBDO China. Before that, he also held senior management positions at Dentsu Young & Rubicam in Shanghai, and McCann-Erickson in Beijing and Hong Kong. Mr. Lau received an EMBA degree from Rutgers State University of New Jersey, USA. He also completed the Advanced Marketing Management program, and the Advanced Management Program (AMP) in Harvard Business School. In 2011, Mr. Lau was honoured by New York based AdAge publication as one of “The World’s 21 Most Influential People in Marketing and Media Industry, 2009-2010”. In 2015, he is named as Global Media Person of the year award by Cannes Lions International Festival of Creativity. Mr. Lau is also the honorary ambassador of the city of Brisbane.

Tong Tao Sang, age 41, Senior Executive Vice President and President of Social Network Group, joined the Company in 2005. Mr. Tong started as a technical architect, and led the product development of social network platform of the Company, Qzone. Since May 2012, Mr. Tong has been responsible for the QQ and Qzone messaging and social networking platforms, VIP subscriptions, performance based advertising, open platform API and cloud services. Prior to joining the Company, Mr. Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr. Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr. Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor in 1994 and a Master of Science degree in Electrical Engineering from Stanford University in 1997.

Lu Shan, age 39, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as General Manager for IM Product Divisions, Vice President for Platform Research and Development System and Senior Vice President for Operations Platform System. Since March 2008, Mr. Lu has been in charge of management of the Operations Platform System of the Company. Since May 2012, Mr. Lu has been in charge of management of Technical Engineering Group. Prior to joining the Company, he worked for Shenzhen Liming Network Systems Limited. Mr. Lu received a Bachelor of Science degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998.

Wu Xiaoguang, age 39, Senior Executive Vice President and Chief Executive Officer of Tencent E-Commerce Holdings Limited, joined the Company in 1999, he led the development and product planning for the Group’s core product, the QQ IM client software and has served as Project Manager for the research and development team of QQ, General Manager for IM product, General Manager for Internet business division and Senior Vice President of Internet Services Division. In November 2010, Mr. Wu was promoted to Senior Executive Vice President. Since May 2012, Mr. Wu has been appointed as Chief Executive Officer of Tencent E-Commerce Holdings Limited, responsible for the development and management of e-Commerce business. Mr. Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. He received a Bachelor of Science degree in Weather Dynamics from Nanjing University in 1996 and an EMBA degree from China Europe International Business School (CEIBS) in 2008.

David A M Wallerstein, age 40, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company’s active participation in new and emerging technologies, business areas, and ideas from his base in Palo Alto, California. Mr. Wallerstein has worked on building Tencent’s international footprint and entrance into new business areas since 2001. Prior to joining the Company, Mr. Wallerstein worked with Naspers in China, responsible for investments and strategy. Prior to that, Mr. Wallerstein worked as a management consultant in China. Mr. Wallerstein received a Master’s degree from UC Berkeley and a Bachelor’s degree from the University of Washington.

Zhang Xiaolong, age 45, Senior Executive Vice President and President of Weixin Group, joined the Company in March 2005 and served as the General Manager for the Guangzhou R&D division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate

Vice President and since September 2012, Mr. Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin/WeChat and QQ Mail. He is also responsible for the management and review of major innovation projects. In May 2014, Mr. Zhang was promoted to Senior Executive Vice President, in charge of the newly formed Weixin Group. Prior to joining the Company, Mr. Zhang developed Foxmail independently in 1997 as the 1st generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr. Zhang received his Master's degree in Telecommunications from Huazhong University of Science and Technology in 1994.

Ma Xiaoyi, age 40, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr. Ma served as a general manager of games division of OPTIC Communication Co., Ltd. Prior to that, Mr. Ma worked as a general manager in Shanghai EasyService Technology Development Ltd. Mr. Ma graduated from Shanghai Jiaotong University, and received an EMBA degree from Fu Dan University in 2008.

John Shek Hon Lo, age 46, Senior Vice President and Chief Financial Officer, joined the Company in 2004 and served as the Company's Financial Controller from 2004 to 2008. Mr. Lo was appointed as the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr. Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr. Lo received a Bachelor of Business in Accounting from Curtin University of Technology and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and HKUST.

Guo Kaitian, age 42, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of administration, legal affairs, government relations, charity fund, procurement as well as the functional management of the branches in Beijing, Shanghai and Chengdu. Mr. Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996.

Xi Dan, age 39, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr. Xi was responsible for HR management in ZTE Corporation and has more than 19 years of experience in IT and Internet industries. Mr. Xi received a Bachelor of Science degree in Applied Computer Science from Shenzhen University in 1996 and an MBA degree from Tsinghua University in 2005.

Board Committees

Audit Committee

The Audit Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Iain Ferguson Bruce as the Chairman. To retain independence and objectivity, the Audit Committee is chaired by an Independent Non-executive Director (with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of our existing external auditor. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system and nominate and monitor external auditor.

Corporate Governance Committee

The Corporate Governance Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Charles St Leger Searle as the Chairman. The primary duties of the Corporate Governance Committee are to develop and review our policies and practices on corporate governance and make recommendations to the Board of Directors.

Nomination Committee

The Nomination Committee currently comprises three Independent Non-executive Directors, one Non-executive Director and one Executive Director, with Mr. Ma Huateng as the Chairman. The primary duties of the Nomination Committee are to review and monitor the structure, size, composition and diversity (including without limitation, skills, knowledge, experience and background) of the Board of Directors regularly and make recommendations on any proposed changes to the Board of Directors to complement our corporate strategy.

Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Ian Charles Stone as the Chairman. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration packages for our Directors, management and general staff and evaluate and make recommendations on employee benefit arrangements.

The Board has also established an Investment Committee and may establish other committees as necessary.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contributions to pension plans) paid or payable to our Directors for each of the years ended 31 December 2011, 2012 and 2013 was RMB67 million, RMB66 million and RMB70 million, respectively.

During the nine months ended 30 September 2014, 1,000,000 shares (before the Share Subdivision) were granted to Mr. Lau Chi Ping Martin, our Executive Director and President. During the nine months ended 30 September 2014, 25,000 awarded shares (before the Share Subdivision) were granted to three Independent Non-executive Directors of the Company. During the years ended 31 December 2013 and 2012, no options/awarded shares were granted to any executive, non-executive or independent non-executive directors of the Company. For the year ended 31 December 2011, 35,000 awarded shares were granted to Independent Non-executive Directors of the Company and no options/awarded shares were granted to our other Executive, Non-executive or Independent Non-executive Directors.

During the years ended 31 December 2011, 2012 and 2013 and other than as set out below:

- No remuneration was paid by us or receivable by our Directors as an inducement to join or upon joining us.
- No compensation was paid by us to or receivable by our Directors or past Directors for the loss of office as a Director or for loss of any other office in connection with the management of our affairs.
- None of our Directors waived any compensation.

The remuneration of members of our senior management team is determined by the Remuneration Committee and is reviewed on an annual basis taking into consideration performance criteria such as the Company's operating results, individual performance and comparable market statistics.

The five highest paid individuals in the Group did not include any director during the year 2013. For the years ended 31 December 2011 and 2012, the five highest paid individuals in the group included two Directors, whose aggregate compensation has been included in the aggregate compensation of our Directors above. Including the compensation of such Directors, the aggregate emoluments (including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contributions to pension plans) paid/payable to the five highest paid employees during the years ended 31 December 2011, 2012 and 2013 were RMB104 million, RMB131 million and RMB552 million. No compensation was paid/payable by us to such employees for the years ended 31 December 2011, 2012 and 2013 for loss of office in connection with the management of our affairs.

Except as disclosed above, no other payments have been paid or payable by us or any of our subsidiaries to our Directors, with respect to the years ended 31 December 2011, 2012 and 2013.

GENERAL REGULATION ON INTERNET AND TELECOMMUNICATIONS INDUSTRIES

This Section in the accompanying Offering Circular shall be amended by replacing the first paragraph under the subsection “Regulations on Value-added Telecommunications Services” starting on page 179 of the accompanying Offering Circular with the following paragraph:

“The Telecommunications Regulations (“**Telecom Regulations**”) (電信條例) which was promulgated on 25 September 2000 and amended on 29 July 2014 by the State Council draws a distinction between ‘basic telecommunication services’ and ‘value-added telecommunication services’. Pursuant to the currently effective Catalogue of Telecommunications Business (電信業務分類目錄), “value-added telecommunication services” cover (i) online data processing and transaction processing, (ii) domestic multi-party communication service, (iii) domestic Internet protocol-virtual private network (IP-VPN), (iv) Internet data service, (v) storage-transfer service, (vi) call centre service, (vii) Internet access service, and (viii) information service. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating licence from MIIT or its local branch.”

This Section shall be further amended by adding the following paragraphs before the subsection “Regulations on Online Payment Services” starting on page 193 of the accompanying Offering Circular:

“On 28 May 2014, SAIC issued the Announcement on Issuing the Guidelines for the Fulfillment of Social Responsibilities by Online Trading Platform Operators (網絡交易平台經營者履行社會責任指引) to regulate the online trading of commodities and provision of relevant services and direct online trading platform operators to actively fulfil their social responsibilities.

On 30 July 2014, SAIC promulgated the Announcement on Issuing the Guidelines for Regulating the Standard Terms of Online Trading Platform Contracts (網絡交易平台合同格式條款規範指引), which regulates the standard terms of online trading platform contracts and protects the lawful rights and interests of dealers and consumers, aims to further promote the sustainable and sound development of the Internet economy.”

This Section shall be further amended by replacing the first paragraph under the subsection “Regulations on Telecommunications Networks Code Number Resources” starting on page 194 of the accompanying Offering Circular with the following paragraph:

“A value-added telecommunications service provider must apply to MIIT authorities to obtain a telecommunications network code number. On 29 January 2003, MIIT issued the Administrative Measures on Telecommunications Networks Code Number Resources (“**Code Number Measures**”) (電信網碼號資源管理辦法) which was amended on 23 September 2014 to regulate network code numbers, including those of mobile communications networks. According to the Code Number Measures, service providers who provide services across provinces shall apply to MIIT, and entities which apply for network code numbers to be used within a provincial-level administrative region shall apply to the relevant provincial branch of MIIT. The Code Number Measures also specify the qualification requirements, application materials and application procedures to obtain network code numbers.”

This Section shall be further amended by replacing the paragraph headed “Trademark” under the subsection “Regulations Relating to The Intellectual Property” starting on page 197 of the accompanying Offering Circular with the following paragraph:

“The Trademark Law of the PRC (商標法), adopted in 1983 and revised in 1993, 2001 and 2013, together with its implementing rules (商標法實施條例), promulgated in 2002 and amended in 2014,

protects registered trademarks. The Trademark Office under SAIC is responsible for trademark registrations. Upon the registration of a trademark, the applicant will have the right to exclusive use of the trademark for ten years. Registered trademark licence agreements must be recorded with the Trademark Office.”

This Section shall be further amended by adding the following paragraph after the first paragraph under subsection “Regulations on Internet Infringement” starting on page 199 of the accompanying Offering Circular:

“On 21 August 2014, the Supreme People’s Court of the PRC promulgated a judicial interpretation, namely, the Provisions of the Supreme People’s Court of the PRC on Several Issues concerning the Application of Law in Hearing Civil Dispute Cases Involving Infringement of Personal Right by Using Information Networks (最高人民法院關於審理利用信息網絡侵害人身權益民事糾紛案件適用法律若干問題的規定), which strengthens the protection over personal rights in infringement in networks transshipment and clarifies the liability of certain internet infringement.”

This Section shall be further amended by adding the following paragraph after the second paragraph on page 201 of the accompanying Offering Circular:

“On 4 July 2014, SAFE promulgated the Circular on Issues concerning the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas (國家外匯管理局關於在部分地區開展外商投資企業外匯資本金結匯管理方式改革試點有關問題的通知) (“**Circular 36**”), which launches a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises in certain designated areas from 4 August 2014. However, the Circular 36 continues to prohibit foreign-invested enterprises from using the Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope. Under the pilot program, some of the restrictions under Circular 142 will not apply to the settlement of the foreign exchange capitals of the foreign-invested enterprises established within the designate areas.”

This Section shall be further amended by replacing the first three paragraphs under the subsection “Regulations on Offshore Investment by PRC Residents” starting on page 201 of the accompanying Offering Circular with the following paragraph:

“On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicle (“**Circular 37**”) (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), which abolishes and supersedes the Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (“**Circular 75**”) (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by SAFE on 21 October 2005. Circular 37 and its implementation guidelines require PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle”. The term “control” under Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from

carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.”

This Section shall be further amended by adding the following paragraph after the fourth paragraph under the subsection “Regulations on Foreign Investor’s Merger and Acquisition of PRC Enterprises” starting on page 202 of the accompanying Offering Circular:

“On 6 June 2014, MOFCOM amended and re-promulgated the Guidance Opinions for Prior Declaration of Concentration of Business Operators (經營者集中申報的指導意見) to further clarify the relevant issues and facilitate the declaration of concentration.”

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

Substantial Shareholders' Interests

As of 30 September 2014, the following persons, other than the Directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long/short position in the shares of the Company

Name of shareholder	Long/short position	Nature of interest/Capacity	Number of shares/ underlying shares held ⁽¹⁾	Percentage of issued share capital
MIH TC Holdings Limited.....	Long	Corporate ⁽²⁾	3,151,201,900	33.65%
Advance Data Services Limited	Long	Corporate ⁽³⁾	949,464,400	10.14%
JPMorgan Chase & Co.....	Long	Beneficial owner	146,733,720	
		Investment manager	95,320,585	
		Trustee (other than a bare trustee)	24,860	
		Custodian corporation/ approved lending agent	<u>352,419,558</u>	
		Total ⁽⁴⁾⁽ⁱ⁾	594,498,723	6.35%
	Short	Beneficial owner ⁽⁴⁾⁽ⁱⁱ⁾	95,285,517	1.02%

Notes:

- (1) Effective on 15 May 2014, each of the existing issued and unissued shares of HK\$0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HK\$0.00002 each (the “Share Subdivision”). Pro-rata adjustments have been made to the number of shares of the Company upon the Share Subdivision accordingly.
- (2) MIH TC Holdings Limited is controlled by Naspers Limited through its wholly owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited are deemed to be interested in the same block of 3,151,201,900 shares under Part XV of the SFO.
- (3) As Advance Data Services Limited is wholly owned by Ma Huateng, Mr. Ma has interest in these shares as disclosed under the section of “Directors’ Interests”.
- (4) (i) Such long position includes derivative interests in 31,013,716 underlying shares of the Company of which 9,257,460 underlying shares are derived from listed and physically settled derivatives, 3,381,300 underlying shares are derived from listed and cash settled derivatives, 3,423,171 underlying shares are derived from unlisted and physically settled derivatives and 14,951,785 underlying shares are derived from unlisted and cash settled derivatives. It also includes 352,419,558 shares in lending pool.
- (ii) Such short position includes derivative interests 66,951,567 underlying shares of the Company of which 4,370,880 underlying shares are derived from listed and physically settled derivatives, 37,659,150 underlying shares are derived from listed and cash settled derivatives, 5,921,264 underlying shares are derived from unlisted and physically settled derivatives and 19,000,273 underlying shares are derived from unlisted and cash settled derivatives.

Directors' Interests

As of 30 September 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, Appendix 10 to the Listing Rules, were as follows:

(A) Long position in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares/ underlying shares held ⁽¹⁾	Percentage of issued share capital
Ma Huateng	Corporate ⁽²⁾	949,464,400	10.14%
Lau Chi Ping Martin	Personal*	47,768,000 ⁽³⁾	0.51%
Li Dong Sheng.....	Personal*	25,000 ⁽⁴⁾	0.0003%
Iain Ferguson Bruce	Personal*	460,000 ⁽⁵⁾	0.005%
Ian Charles Stone.....	Personal* Family ⁺	125,000 300,000	0.005%
		425,000 ⁽⁶⁾	

Notes:

- (1) Upon the Share Subdivision became effective on 15 May 2014, pro-rata adjustments have been made to the number of shares and underlying shares of the Company accordingly.
 - (2) These shares are held by Advance Data Services Limited, a BVI company wholly owned by Ma Huateng.
 - (3) The interest comprises 37,768,000 shares and 10,000,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III.
 - (4) The interest comprises 25,000 underlying shares in respect of the awarded shares granted pursuant to the Share Award Schemes.
 - (5) The interest comprises 370,000 shares and 90,000 underlying shares in respect of the awarded shares granted pursuant to the Share Award Schemes.
 - (6) The interest comprises 345,000 shares and 80,000 underlying shares in respect of the awarded shares granted pursuant to the Share Award Schemes.
- * Interests of beneficial owner
- + Interests of spouse or child under 18 as beneficial owner

(B) Long position in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Tencent Computer	Personal	RMB16,285,710 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 September 2014.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

The following summary of the principal terms of the instruments governing our material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the consolidated financial statements contained and incorporated by reference elsewhere in this Amended Offering Circular for additional information about our indebtedness.

As of 30 September 2014, our borrowings and notes payable included in current liabilities, borrowings and notes payable included in non-current liabilities were RMB2,710 million (US\$442 million), RMB1,843 million (US\$300 million), RMB5,537 million (US\$902 million) and RMB24,207 million (US\$3,944 million), respectively. Our total borrowings included in current liabilities comprise onshore RMB borrowings, as well as offshore U.S. dollar borrowings. Borrowings included in non-current liabilities comprise offshore U.S. dollar borrowings and our notes payable (including current and non-current portion) comprise the 2015 Notes, 2016 Notes, 2017 Notes, 2018 Notes, 2019 Notes and January 2020 Notes.

RMB Borrowings

Our total RMB borrowings as of 30 September 2014 were RMB125 million (US\$20 million).

U.S. Dollar Borrowings

The aggregate principal amount of short-term U.S. dollar bank borrowings as of 30 September 2014 was US\$200 million. Applicable interest rates are at LIBOR plus 1.00% per annum. The aggregate principal amount of long-term U.S. dollar bank borrowings as of 30 September 2014 was US\$1,120 million. Applicable interest rates are at LIBOR plus 1.37% to 1.97% per annum. All such borrowings were unsecured.

These bank borrowings were entered into by one of our offshore subsidiaries, under which it has agreed to certain customary covenants relating to, among other things, securities over its assets, disposals of its assets, and mergers and acquisitions. These bank borrowings contain certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, borrower's dissolution and insolvency, misleading statements or material omissions, cessation of all or a material part of the borrower's business, change in ownership of the borrower and cross defaults under other loans. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

These bank borrowings are generally guaranteed by the Company.

2015 Notes

We issued the 1.860% Senior Notes in an aggregate principal amount of US\$300 million (the "**2015 Notes**") for general corporate purposes pursuant to the terms of an agency agreement between the Company and Deutsche Bank AG, Hong Kong Branch as fiscal and paying agent dated 10 September 2013 and a deed of covenant dated 10 September 2013. The 2015 Notes were issued at 99.766% of the aggregate principal amount. Interest on the 2015 Notes will be payable semi-annually in arrears on 10 March and 10 September of each year. The 2015 Senior Notes will mature on 10 September 2015.

2016 Notes

We issued the 4.625% Senior Notes in an aggregate principal amount of US\$600 million (the “**2016 Notes**”) for general corporate purposes pursuant to the terms of an indenture dated 12 December 2011, between the Company and Deutsche Bank Trust Company Americas as trustee. The 2016 Notes were issued at 99.740% of the aggregate principal amount. Interest on the 2016 Notes will be payable semi-annually in arrears on 12 June and 12 December of each year. The 2016 Senior Notes will mature on 12 December 2016.

The indenture governing the 2016 Notes includes customary covenants that, among other things, limit our ability to incur liens and consolidate, merge or sell all or substantially all of our assets. These covenants are subject to certain exceptions and qualifications as described in such indenture. Such indenture contains customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to pay or acceleration of certain other indebtedness, certain events of bankruptcy and insolvency and failure to pay certain judgements. Generally, an event of default under such indenture will allow either the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 2016 Notes to accelerate the amounts due under the 2016 Notes.

2018 Notes

We issued the 3.375% Senior Notes in an aggregate principal amount of US\$600 million (the “**2018 Notes**”) for general corporate purposes pursuant to the terms of an indenture dated 5 September 2012, between the Company and Deutsche Bank Trust Company Americas as trustee. The 2018 Notes were issued at 99.771% of the aggregate principal amount. Interest on the 2018 Notes will be payable semi-annually in arrears on 5 March and 5 September of each year. The 2018 Notes will mature on 5 March 2018.

The indenture governing the 2018 Notes includes customary covenants that, among other things, limit our ability to incur liens and consolidate, merge or sell all or substantially all of our assets. These covenants are subject to certain exceptions and qualifications as described in such indenture. Such indenture contains customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to pay or acceleration of certain other indebtedness, certain events of bankruptcy and insolvency and failure to pay certain judgements. Generally, an event of default under such indenture will allow either the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 2018 Notes to accelerate the amounts due under the 2018 Notes.

2017 Notes and 2019 Notes

On 29 April 2014, we issued the 2.0% Senior Notes in an aggregate principal amount of US\$500 million (the “**2017 Notes**”) for general corporate purposes under the Programme. The 2017 Notes were issued at 99.797% of the aggregate principal amount. Interest on the 2017 Notes will be payable semi-annually in arrears on 2 November and 2 May of each year. The 2017 Notes will mature on 2 May 2017. On 29 April 2014, we issued the 3.375% Senior Notes in an aggregate principal amount of US\$2,000 million (the “**2019 Notes**”) for general corporate purposes under the Programme. The 2019 Notes were issued at 99.895% of the aggregate principal amount. Interest on the 2019 Notes will be payable semi-annually in arrears on 2 November and 2 May of each year. The 2019 Notes will mature on 2 May 2019. The 2017 Notes and 2019 Notes are constituted by, are subject to and have the benefit of a trust deed dated 10 April 2014 in connection with the Programme. The terms and conditions applicable to the 2017 Notes and 2019 Notes are set forth in the relevant pricing supplement.

H.K. Dollar Borrowings

January 2020 Notes

On 16 May 2014, we issued the 3.2% Senior Notes in an aggregate principal amount of HK\$2,000 million (the “**January 2020 Notes**”) for general corporate purposes under the Programme. The January 2020 Notes were issued at 100.0% of the aggregate principal amount. Interest on the January 2020 Notes will be payable quarterly in arrear on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes will mature on 10 January 2020. The January 2020 Notes is constituted by, is subject to and has the benefit of a trust deed dated 10 April 2014 in connection with the Programme. The terms and conditions applicable to the January 2020 Notes is set forth in the relevant pricing supplement.

RELATED PARTY TRANSACTIONS

This Section in the accompanying Offering Circular shall be amended by replacing the last sentence of the last paragraph under “Option Schemes” under the subsection “Share Option Schemes and Share Award Scheme Share” on page 209 of the accompanying Offering Circular with the following sentence:

“7,624,113 shares, 9,295,222 shares, 11,361,870 shares and 3,715,616 shares (before the Share Subdivision) and 18,089,583 shares (after the Share Subdivision) were issued in 2011, 2012, 2013 and the nine months ended 30 September 2014, respectively, pursuant to the share option schemes the Company has already adopted.”

This Section shall be further amended by adding the following paragraph after the last paragraph under “Option Schemes” under the subsection “Share Option Schemes and Share Award Scheme Share” on page 209 of the accompanying Offering Circular:

“On 14 May 2014, the Company adopted the Riot Option Scheme. Riot Games Inc. (“**Riot Games**”) is a non-wholly-owned subsidiary of the Company, which indirectly holds 89.74% of its issued share capital as of 28 February 2014. Pursuant to the Riot Option Scheme, the board of directors of or a board committee of Riot Games may, at its discretion, grant options to any eligible person (any employee, director of the board of Riot Games or a consultant engaged by Riot Games or a parent or subsidiary of Riot Games) to subscribe for shares in Riot Games. The Riot Option Scheme shall be valid and effective for a period of ten years commencing on its date of adoption. The maximum number of shares in respect of which options may be granted under the Riot Option Scheme, when aggregated with the maximum number of shares in respect of any options to be granted under any other plan established by Riot Games (if any), shall not exceed 10% of the issued shares as of the date of approval of the Riot Option Scheme. Option granted under the Riot Option Scheme will expire after the last day of the ten-year period after the date of grant of options (subject to early termination as set out in the terms of the Riot Option Scheme).”

This Section shall be further amended by replacing the paragraph under “Share Options Granted to Directors” under the subsection “Share Option Schemes and Share Award Scheme Share” on page 210 of the accompanying Offering Circular with the following paragraph:

“For the years ended 31 December 2011, 2012 and 2013, no share options were granted to any Executive, Non-executive or Independent Non-executive Directors. For the nine months ended 30 September 2014, 1,000,000 share options (before the Share Subdivision) were granted to Mr. Lau Chi Ping Martin, our Executive Director and President.”

PRC CURRENCY CONTROLS

This Section in the accompanying Offering Circular shall be amended by adding the following paragraph before the last paragraph under this section:

“On 4 July 2014, SAFE promulgated the Notice of the Issues concerning the Pilot Reform of the Administrative Approach for the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas (“**Circular 36**”) (國家外匯管理局關於在部分地區開展外商投資企業外匯資本金結匯管理方式改革試點有關問題的通知), which releases some of the restrictions under Circular 142 by allowing certain foreign-invested enterprises in the designated pilot reform to convert the foreign currencies from its registered capital into RMB and use it for equity investments in the PRC with both-side registrations with the local branch of SAFE at both its own domicile and the domicile of the invested PRC company.”

SUBSCRIPTION AND SALE

This Section in the accompanying Offering Circular shall be amended by adding the following paragraph before the last paragraph under the subsection “Selling Restrictions”:

“Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange.”

GENERAL INFORMATION

This Section in the accompanying Offering Circular shall be deleted and replaced in its entirety by the following information.

1. Listing

The Programme is listed on the SEHK by way of debt issues to professional investors (as defined in the SFO) only during the 12-month period from the date of the Offering Circular on the SEHK. The issue price of Notes listed on the SEHK will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

2. Authorisation

The establishment of the Programme and the issue of the Notes thereunder were authorised by resolutions of the board of directors of the Issuer passed on 28 March 2014. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. Auditor

The Issuer's audited consolidated financial statements as at and for the years ended 31 December 2011, 2012 and 2013, which are included elsewhere in this Amended Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in its report appearing herein. The Issuer's unaudited consolidated financial statements as at and for the three months ended 31 March 2013 and 2014, the three months and the six months ended 30 June 2013 and 2014 and the three months and the nine months ended 30 September 2013 and 2014, which are included elsewhere in this Amended Offering Circular, have been reviewed by PricewaterhouseCoopers, Certified Public Accountants.

4. No Material Adverse Change

Save as disclosed in this Amended Offering Circular, as of the date of this Supplement, there has been no material adverse change in the business of the Group since 1 October 2014.

5. Documents on Display

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at Tencent Building, Kejizhongyi Avenue, Hi-tech Park, Nanshan District, Shenzhen, 518057, the PRC and the specified office of the Principal Paying Agent at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

- (i) the memorandum and articles of association of the Issuer;
- (ii) the audited consolidated financial statements of the Issuer for the years ended 31 December 2011, 2012 and 2013;
- (iii) the unaudited consolidated financial statements of the Issuer for the three and nine months ended 30 September 2013 and 2014;

- (iv) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of the Issuer;
- (v) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity);
- (vi) a copy of this Supplement and the Offering Circular together with any supplement to this Amended Offering Circular;
- (vii) the Trust Deed (which contain the forms of the Notes in global and definitive form);
- (viii) the Agency Agreement;
- (ix) the Dealer Agreement; and
- (x) the Programme Manual.

6. Clearing of the Notes

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). We may also apply to have Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. In addition, we may make an application for any Restricted Notes or DTC Unrestricted Notes to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Notes will be confirmed in the relevant Notes. The relevant ISIN, the Common Code, the Committee on the Uniform Security Identification Procedure (“CUSIP”) number and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

INDEX TO FINANCIAL STATEMENTS

This Section in the accompanying Offering Circular shall be amended by adding the following information:

	<i>Page</i>
Consolidated statement of financial position as of 30 September 2014	F-355
Consolidated income statement for the three and nine months ended 30 September 2014	F-357
Consolidated statement of comprehensive income for the three and nine months ended 30 September 2014	F-359
Consolidated statement of changes in equity for the nine months ended 30 September 2014	F-360
Consolidated statement of cash flows for the nine months ended 30 September 2014	F-362
Notes to the consolidated financial statements for the three and nine months ended 30 September 2014	F-363

The above information has been added to the relevant “F-”pages attached to the accompanying Offering Circular.

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Offering Circular

Tencent 腾讯

TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

U.S.\$5,000,000,000

Global Medium Term Note Programme

Under the U.S.\$5,000,000,000 Global Medium Term Note Programme described in this Offering Circular (the “Programme”), Tencent Holdings Limited (the “Issuer” and the “Company”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the “Notes”).

Notes may be issued in bearer or registered form. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$5,000,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuing basis to one or more of the Dealers specified under “Summary of the Programme” or any additional Dealer appointed under the Programme from time to time by the Issuer (each a “Dealer” and together the “Dealers”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the “SEHK”) for the listing of the Programme by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”)) only during the 12-month period from the date of this Offering Circular on the SEHK. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined under “Terms and Conditions of the Notes” and each term therein, a “Condition”) of Notes will be set out in a pricing supplement (the “Pricing Supplement”) which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK, on or before the date of issue of the Notes of such Series. This Offering Circular may not be used to consummate sales of Notes, unless accompanied by a Pricing Supplement.

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or any other stock exchange.

Each Series (as defined in “Summary of the Programme”) of Notes in bearer form (“Bearer Notes”) will be represented on issue by a temporary global note (each a “Temporary Global Note”) or a permanent global note (each a “Permanent Global Note”), and will be sold in an “offshore transaction” within the meaning of Regulation S (“Regulation S”) under the United States Securities Act of 1933, as amended (the “Securities Act”). Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes (together with the Temporary Global Notes, the “Global Notes”), or if so stated in the relevant Pricing Supplement, definitive Notes (“Definitive Notes”), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Series, upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under “Summary of Provisions Relating to the Notes while in Global Form”.

The Notes of each Series to be issued in registered form (“Registered Notes”) and which are sold in an “offshore transaction” within the meaning of Regulation S (“Unrestricted Notes”) will initially be represented by a permanent registered global note certificate (each an “Unrestricted Global Note Certificate”) without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank S.A./N.V. (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”), with a common depository on behalf of Euroclear and Clearstream, Luxembourg, (b) in the case of a Series intended to be cleared through the Central Moneymarkets Unit Service (the “CMU Service”), operated by the Hong Kong Monetary Authority (the “HKMA”), with a sub-custodian for the CMU Service, (c) in the case of a Series intended to be cleared through The Depository Trust Company (“DTC”), registered in the name of Cede & Co. as nominee for DTC and (d) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, DTC and/or the CMU Service, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. Registered Notes which are sold in the United States to “qualified institutional buyers” (each, a “QIB”) within the meaning of Rule 144A (“Rule 144A”) under the Securities Act (“Restricted Notes”) will initially be represented by a permanent registered global note certificate (each a “Restricted Global Note Certificate”) and, together with the relevant Unrestricted Global Note Certificates, the “Global Note Certificates”), without interest coupons, which may be deposited on the relevant issue date with a custodian (the “DTC Custodian”) for, and registered in the name of Cede & Co. as nominee for, DTC or with a common depository on behalf of Euroclear and Clearstream, Luxembourg. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes are described in “Summary of Provisions Relating to the Notes while in Global Form”.

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons. Accordingly, the Notes may be offered and sold (i) in the United States (as defined in Regulation S) in registered form only to QIBs in transactions exempt from registration under the Securities Act and/or (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. The applicable Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See “Subscription and Sale” and the applicable Pricing Supplement. Bearer Notes are subject to U.S. tax requirements.

Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc. (“S&P”) has assigned a rating of “A-” to the Programme and Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “A3” to the Programme. The rating is only correct as at the date of the Offering Circular. Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at anytime by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. See “Risk Factors” beginning on page 20 for a discussion of factors that you should consider carefully before investing in the Notes.

Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK for the purpose of giving information with regard to the Issuer and the Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading in any material respect.

Arranger

Deutsche Bank

Dealers

ANZ	Bank of China (Hong Kong)	Barclays	BofA	Merrill Lynch	Citigroup	Credit Suisse
Deutsche Bank	HSBC	J.P. Morgan	Standard Chartered Bank			

The date of this Offering Circular is 10 April 2014.

Tencent Holdings Limited (the “**Issuer**” and the “**Company**”) having made all reasonable enquiries confirms that to its best knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Issuer, the Group and the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (iii) the statements of intention, opinion and belief or expectation contained in this Offering Circular with regard to the Issuer and the Group are honestly made or held.

Each Series (as defined herein) of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” as amended and/or supplemented by the Pricing Supplement specific to such Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and Deutsche Bank AG, Singapore Branch (the “**Arranger**”) to inform themselves about and to observe any such restrictions. None of the Issuer, the Arranger or the Dealers (as defined below) represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or the Dealers, which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the PRC, Hong Kong, Japan and Singapore, and to persons connected therewith.

The Notes may be offered or sold (i) in the United States only to QIBs and only in registered form, and/or (ii) outside the United States, to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. Any additional restrictions on the sale or transfer of any Series of Notes will be specified in the applicable Pricing Supplement for such Notes.

If Notes in registered form are being offered or sold to U.S. persons or in the United States, prospective investors are hereby notified that sellers of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Arranger and Dealers, through their respective selling agents, may arrange for the offer and resale of such Notes to U.S. persons or persons in the United States who are QIBs in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular, see “*Subscription and Sale*”.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Arranger or any Dealer.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arranger, the Dealers, the Agents or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.\$5,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under “*Subscription and Sale*”.

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes.

None of the Arranger, the Dealers, the Trustee or any Agents has separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Arranger, the Dealers, the Trustee, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Notes or the issue and offering of the Notes. The Arranger, the Dealers, Trustee and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger, the Dealers, the Trustee or the Agents or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation, as it deems necessary. None of the Arranger, the Dealers, the Trustee or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger, the Dealers, the Trustee, the Agents or any of them.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to “US\$”, “USD” and to “U.S. dollars” are to United States dollars; all references to “HK\$” and to “HKD” are to Hong Kong dollars; all references to “euro” and “€” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro as amended; all references to “yen” are to Japanese yen; all references to “Renminbi”, “CNH”, “RMB” and “CNY” are to the currency of the PRC; all references to “United States” or “U.S.” are to the United States of America; references to “China”, “Mainland China” and the “PRC” in this Offering Circular mean the People’s Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; references to “PRC Government” mean the government of the PRC; references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China; references to “Macau” are to the Macao Special Administrative Region of the People’s Republic of China; and all references to “United Kingdom” are to the United Kingdom of Great Britain and Northern Ireland.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements of the Issuer from time to time on the SEHK and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the office of the Issuer at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2657, Grand Cayman, KY1-111, Cayman Islands and at the specified offices of the Paying Agents and the principal office in Hong Kong of the Principal Paying Agent (as defined under “*Summary of the Programme*”) (or such other Paying Agent for the time being in Hong Kong) set out at the end of this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

The financial information as at and for the years ended 31 December 2011, 2012 and 2013 included in this Offering Circular has been derived from the Group’s audited consolidated financial statements.

AVAILABLE INFORMATION

For so long as any of the outstanding Notes are represented by one or more Restricted Global Note Certificates and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which the Issuer is neither subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the “**Exchange Act**”) nor exempt from the reporting requirements of the Exchange Act under Rule 12g3-2(b) thereunder, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owners or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of the Cayman Islands. Most of its directors and officers reside outside the United States (principally in the PRC). A substantial portion of the Issuer’s assets and the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons, or to enforce against the Issuer or such persons judgements obtained in United States courts, including judgements predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by its PRC counsel, Jun He Law Offices, that there is uncertainty as to whether the courts of the PRC would (1) enforce judgements of the U.S. courts obtained against the Issuer or its directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (2) entertain original actions brought in the courts of the PRC against the Issuer or its directors and officers predicated upon these civil liabilities provisions.

GLOSSARY OF TECHNICAL TERMS

This glossary contains terms used in this Offering Circular as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

“2008 CIT Law”	the PRC Corporate Income Tax Law (中華人民共和國企業所得稅法), which came into effect on 1 January 2008
“2015 Notes”	the Company’s US\$300,000,000 1.860% Senior Notes due 2015
“2016 Notes”	the Company’s US\$600,000,000 4.625% Senior Notes due 2016
“2018 Notes”	the Company’s US\$600,000,000 3.375% Senior Notes due 2018
“ACG(s)”	advanced casual game(s)
“ACU”	average concurrent user accounts
“Adjusted EBITDA”	adjusted EBITDA
“Analysys”	Analysys International, a third-party market research firm
“Avatar”	customisable virtual character
“B2B”	business to business
“B2C”	business to customer
“BBS”	bulletin board system
“Board of Directors”	the board of Directors
“BVI”	the British Virgin Islands
“C2C”	consumer to consumer
“China Mobile”	China Mobile Communications Corporation (中國移動通信集團公司) and its branches, subsidiaries and affiliates
“China Telecom”	China Telecommunications Corporation (中國電信股份公司) and its branches, subsidiaries and affiliates
“China Unicom”	China United Network Communications Group Company Limited (中國聯合網絡通信集團有限公司) and its branches, subsidiaries and affiliates
“CNNIC”	China Internet Network Information Center (中國互聯網絡信息中心)
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

“Company”	Tencent Holdings Limited (騰訊控股有限公司), an exempted company with limited liability organised and existing under the laws of the Cayman Islands and the shares of which are listed on the SEHK
“Cyber Shenshan”	Tencent Cyber (Shenzhen-Shantou Special Cooperation Zone) Company Limited (騰訊數碼(廣東深汕特別合作區)有限公司), a company established on 15 June 2012 in the PRC with limited liability and a wholly owned subsidiary of the Company
“Cyber Shenzhen”	Tencent Cyber (Shenzhen) Company Limited (騰訊數碼(深圳)有限公司), a company established on 17 January 2007 in the PRC with limited liability and a wholly owned subsidiary of the Company
“Cyber Tianjin”	Tencent Cyber (Tianjin) Company Limited (騰訊數碼(天津)有限公司), a company established on 8 February 2004 in the PRC with limited liability and a wholly owned subsidiary of the Company
“Director(s)”	director(s) of the Company or any of them
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“GAPP”	PRC General Administration of Press and Publication (中華人民共和國新聞出版總署)
“GMV”	gross merchandise value
“Group”	the Company and its subsidiaries
“IDC”	International Data Corporation, a third-party market research firm
“IFRS”	International Financial Reporting Standards
“IM”	instant messaging
“iResearch”	iResearch Consulting Group, a third-party market research firm
“JD.com”	JD.com, Inc., a limited liability company incorporated in the Cayman Islands
“LIBOR”	London Interbank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the SEHK
“MAU”	monthly active user accounts
“MCG(s)”	mini casual game(s)
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), formally known as Ministry of Information Industry of the PRC (MII) (中華人民共和國信息產業部), including its local branches

“MMOG(s)”	massively multi-player online game(s), a form of computer game that involves a large number of users playing a game online simultaneously
“MMORPG(s)”	massively multi-player online role-playing game(s)
“MMS”	multimedia messaging service, a communications technology that allows users to exchange multimedia communications between capable mobile devices
“MOC”	Ministry of Culture of the PRC (中華人民共和國文化部), including its local branches
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部), including its local branches
“MPS”	Ministry of Public Security of the PRC (中華人民共和國公安部)
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the PRC inter-bank foreign exchange market rate of the previous day and with reference to current exchange rates on the world financial markets
“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, but for the purpose of this Offering Circular, excludes Hong Kong, Macau and Taiwan
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), including its local branches
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), including its local branches
“SAPPRFT”	State General Administration of Press, Publication, Radio, Film and Television (中華人民共和國國家廣播電影電視總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局), including its local branches

“SEHK”	The Stock Exchange of Hong Kong Limited
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Icsen”	Shanghai Icsen E-Commerce Development Company Limited (上海易迅電子商務發展有限公司), a company formed under the laws of the PRC
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the restricted share award scheme adopted by the Company on 13 November 2013
“Shiji Kaixuan”	Shenzhen Shiji Kaixuan Technology Company Limited (深圳市世紀凱旋科技有限公司), a company established on 13 January 2004 in the PRC with limited liability
“Shijiaqi”	Shenzhen Shijiaqi Investment Company Limited (深圳市世佳琦投資有限公司), a company incorporated in the PRC with limited liability
“SMS”	short message service, a service that allows text messages, which may comprise words, numbers or an alphanumeric combination, to be transmitted on mobile devices
“SNS”	social networking services
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Tencent Beijing”	Tencent Technology (Beijing) Company Limited (騰訊科技(北京)有限公司), a company established on 30 March 2005 in the PRC with limited liability and a wholly owned subsidiary of the Company
“Tencent Charity Fund”	a charity fund established by the Group
“Tencent Chengdu”	Tencent Technology (Chengdu) Company Limited (騰訊科技(成都)有限公司), a company established on 10 July 2008 in the PRC with limited liability and a wholly owned subsidiary of the Company
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established on 11 November 1998 in the PRC with limited liability
“Tencent e-Commerce”	Shenzhen Tencent e-Commerce Information Technology Company Limited (深圳市騰訊電商信息技術有限公司), a company established on 28 September 2012 in the PRC with limited liability
“Tencent Shanghai”	Tencent Technology (Shanghai) Company Limited (騰訊科技(上海)有限公司), a company established on 23 July 2008 in the PRC with limited liability and a wholly owned subsidiary of the Company

“Tencent Technology”	Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司), a company established on 24 February 2000 in the PRC with limited liability and a wholly owned subsidiary of the Company
“Tencent Wuhan”	Tencent Technology (Wuhan) Company Limited (騰訊科技(武漢)有限公司), a company established on 18 November 2011 in the PRC with limited liability and a wholly owned subsidiary of the Company
“VAS”	Value-added services
“WAP”	Wireless Application Protocol, an open, global specification that allows Internet access and other broadband services on mobile wireless devices
“web game”	browser-based online game that does not require installation of client or plug-in
“WFOEs”	Tencent Technology, Cyber Tianjin, Tencent Beijing, Cyber Shenzhen, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan and Cyber Shenshan
“YXL”	Yixun Logistics Company Limited (易迅物流有限公司), a company formed under the laws of the PRC, and a wholly owned subsidiary of Shanghai Icsen

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular may constitute “*forward-looking statements*”. The words including “believe”, “expect”, “plan”, “anticipate”, “schedule”, “estimate”, “aim”, “intend”, “project”, “seek to”, “predict”, “future”, “goal” and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer or the Group and the plans and objectives of the management of the Issuer and the Group for its future operations (including development plans and objectives relating to the Group’s operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results or performance of the Issuer or the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer’s and the Group’s present and future business strategies of the Issuer and the Group and the environment in which the Issuer or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer’s or the Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under “*Risk Factors*” and elsewhere, important factors that could cause actual results to differ materially from the Issuer’s expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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SUMMARY OF THE ISSUER

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Circular, including “Risk Factors”, “Management’s Discussion and Analysis of Results of Operations” and our consolidated financial statements and related notes thereto, before making an investment decision.

OUR BUSINESS

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country with 808.0 million MAU of QQ and 355.0 million combined MAU of Weixin and WeChat as of 31 December 2013. We are the leading IM provider in the PRC with QQ having a market share of 83.7% for PC IM services, while Mobile QQ and Weixin have a market share of 41.6% and 54.5% for Mobile IM services respectively, as measured by monthly time spent by users as of December 2013, according to iResearch. We also provide diversified social networking and social media services including Qzone and Tencent Microblog. We are the largest SNS provider with our Qzone and Tencent Microblog together having a market share of 72.7% in the PRC as measured by monthly time spent by users in December 2013, according to iResearch. QQ.com had 133.9 million daily average unique visitors in December 2013, which ranked first among all online portals in the PRC, according to iResearch, and No. 7 website in the world in user traffic as of March 2014 according to Alexa.com. Leveraging our social communications platforms and our massive user base, we aim to become the hub for fulfilling Internet users’ online lifestyle needs, encompassing communication, social networks, entertainment, media content and eCommerce. The breadth of our highly popular services cover: QQ IM, Qzone, QQ Game Platform, QQ.com, Tencent Video, eCommerce services, mobile news and our mobile social communication platforms, Weixin and WeChat. We were founded in November 1998 and we launched our QQ IM service in February 1999. Currently, we have four lines of business:

- **Value-added Services** — Our VAS business mainly consists of online games and social networks services. We offer a diversified game portfolio ranging from PC client games like MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including QQ Membership, Qzone and Tencent Microblog, etc. We monetise our VAS business primarily via monthly subscriptions and item-based sales within PC and mobile games or other applications.
- **Online Advertising** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are delivered primarily on our SNS platforms and other platforms.
- **eCommerce Transactions** — Our eCommerce transactions business involve B2C eCommerce transaction, sales of merchandise and services on our B2C marketplaces, C2C marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce.
- **Others** — Our other services include trademark licensing, software development services and software sales.

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

We went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2013, our total revenues was RMB60,437 million (US\$9,983 million) and our profit for the year was RMB15,563 million (US\$2,571 million), an increase of 38% and 22%, respectively, over the year ended 31 December 2012. As of 31 December 2013, our cash and cash equivalents and term deposits amounted to RMB51,271 million (US\$8,468 million).

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

Large and Highly Engaged User Base with Strong Network Effect

We operate the largest IM community in the PRC with 808.0 million MAU of QQ as of 31 December 2013. For the three months ended 31 December 2013, we recorded 180.3 million PCU of QQ up from 176.4 million for the three months ended 31 December 2012. We recorded 355.0 million combined MAU for Weixin and WeChat as of 31 December 2013. Our large and highly engaged user base creates strong network effect for our IM users to interact with one another through IM and our other applications and value-added services, which in turn enables us to retain our existing users and attract new users. In addition, our large user base provides us with the opportunity to market and deliver our value-added services and products. We believe that our large and active user base creates a high barrier to entry, as it is challenging for our competitors to build a similar critical mass of users for their products and services.

Successful Monetisation through Diversified Products and Services

We continuously develop innovative services to expand and enrich the experience of our users and enhance their loyalty to our online community. To fulfill our users' online lifestyle needs, we offer a wide range of value-added services, such as social networks, digital content, online games and eCommerce services. Our diverse offering of products and services, combined with our large user base, offer us significant monetisation opportunities and enable us to diversify our revenue streams. We generate value-added services revenue from user subscriptions and item-based sales. We have monetised user traffic generated from our IM clients, SNS, video, portals and other platforms through online advertising. By continuing to develop new products and services to meet the rapidly evolving needs of the increasingly sophisticated Internet users, we expect that we will be able to generate additional revenue from new services.

Significant Market Leadership in Multiple Service Areas

We have a strong presence for all of our key products and services, including IM, SNS, online games and online advertising. We believe our leading position is underpinned by our in-depth understanding of the needs of our users and the trends in the market, as well as our strong research and development capability.

- *IM* — We are the leading IM provider in the PRC with QQ having a market share of 83.7% as measured by monthly time spent by users for PC IM services, while Mobile QQ and Weixin have a market share of 41.6% and 54.5% respectively as measured by monthly time spent by users for Mobile IM services as of December 2013, according to iResearch.
- *SNS* — We provide diversified social networking and social media services including Qzone and Tencent Microblog. We are the largest SNS provider with our Qzone and Tencent Microblog collectively having a market share of 72.7% in the PRC as measured by monthly time spent by users in December 2013, according to iResearch.

- *Online games* — We are the largest online game operator and a leading game developer in the PRC with a market share of 35.9% as measured by revenue in the year ended 31 December 2013, according to iResearch. We operate six of the top ten most popular online game titles in the PRC, according to Baidu online games search ranking as of 31 March 2014. We distribute some of the most popular online game titles in China, including League of Legends, Dungeon and Fighter, Cross Fire, QQ Speed and QQ Dancer, each of which had over 1 million PCU in each of the last four quarters ended 31 December 2013 during which such title was available.
- *Online advertising* — QQ.com had 133.9 million daily average unique visitors in December 2013, which ranked first among all online portals in the PRC, according to iResearch. We sell brand display advertisements on IM, QQ.com and other platforms. Utilising our proprietary targeted advertising system, we also offer performance display advertising solutions on our social networks platforms and other platforms. We had over 1,000 brand display advertisers for our online advertising platforms as of the fourth quarter of 2013.

Highly Cash Generative Consumer-oriented Business Model

We have consistently generated healthy cash flows from our operations and maintained positive operating cash flows since 2001, even during the past economic downturns, including the global economic slowdown that began in the second half of 2008. A significant majority of our revenue is derived from micro-transactions or subscription revenue generated by our massive user base. We price most of our products and services at an affordable level for the average Internet user, making our earnings and cash flows more resilient to economic cycles. Consequently, our business is generally less affected by the global economic slowdown and domestic macro-tightening measures. We bill and collect a majority of our revenue through prepaid channels, including prepaid Q-Coin cards and our e-sales system, which minimises our working capital needs and achieves a high cash flows conversion ratio. In addition, our Internet-based business model demonstrates significant operational scalability and requires low capital expenditures. As of 31 December 2013, our cash and cash equivalents and term deposits reached RMB51,271 million (US\$8,468 million), up from RMB38,081 million as of 31 December 2012.

Stable and Proven Management Team

We have a stable and capable senior management team with extensive operating experience in the PRC Internet and telecommunications industries as well as strong capabilities in developing and executing innovative business strategies. Besides core founders, we have recruited senior management talents from leading global firms, such as Lau Chi Ping Martin, our President and James Gordon Mitchell, our Chief Strategy Officer. We also have competitive training and career development plans in place to continuously build our own teams. The collective experience of our management team brings together a mix of local and international experience, industry knowledge and complementary skill sets which have allowed us to smoothly transition to a large scale, professionally managed company since our IPO. We believe our committed and experienced management team will continue to lead us to further success.

OUR STRATEGIES

Our strategic objective is to strengthen our market leading position and become the hub for fulfilling Internet users' online lifestyle needs. We will undertake strategic initiatives focused on expanding our market shares, diversifying our services and products and sustaining our growth and profitability. In particular, we will seek to:

Further Expand Our User Base and Increase User Engagement

We believe the size of our user base and depth of user engagement in our online community are our critical competitive advantages. We plan to further expand our user base and increase user engagement

by enhancing user experience and broadening our services and products. For example, to capture the increasing integration between the PC and mobile Internet, we have been enhancing the functions and features on our Mobile QQ and Weixin, which integrate value-added services such as online games, news and local services. Such enhancements will further enable us to expand our user base and to deepen user engagement in China and the overseas market via WeChat.

Further Monetise Our User Base and User Traffic

We seek to broaden and enhance our fee-based value-added services, and promote user subscriptions and item-based sales to increase paying user conversion rate. We are investing to enhance the overall competitiveness of our online advertising platform, and are exploring the synergies between SNS and our other services.

Capture the Emerging Mobile Internet Trend

We are a leading provider of mobile applications which cover a range of categories, including communication, social networks, news, games, browser and security solutions. As our users demand more mobility and real-time information, we will continue to introduce a growing number of services and applications across a broader range of Internet-enabled mobile devices. We also intend to develop services and products that cater to the needs of smartphone users.

Pursue an Open Platform Strategy That Promotes Innovation and Collaboration.

We pursue an open platform strategy and seek to increasingly collaborate with third-party developers and industry partners to further enrich the applications offered on our open platforms, including Qzone and QQ Game Platform, thus increasing social sharing and interaction among our users. We are extending this open platform strategy from PC to mobile through games. By offering a large number of quality third-party and in-house applications, we endeavour to promote innovation within our open platforms, which we expect will ultimately enhance the value of our open platforms as a whole. Our open platforms are the largest of their kind in China, incubating more than 850,000 registered third party developers as of April 2013.

Pursue Selective Investments and Acquisitions to Enhance Our Business Portfolio, Proprietary Content, Distribution Channels, Technology and International Presence

We have made strategic investments and acquisitions in the PRC, emerging markets such as Russia, Brazil, India and Southeast Asia, as well as other strategic markets such as the United States. We have also been leveraging our technical and operational know-how to deliver quality Internet and mobile applications and services to users in these markets. We intend to continue pursuing selective investments and acquisitions of businesses, assets, content and technologies that complement our existing capabilities and revenue streams, as well as strategic investments and/or co-operation opportunities with top vertical category leaders. We seek to capture these opportunities by identifying strategic investments that will strengthen our position as the hub for fulfilling Internet users' online lifestyle needs.

RECENT DEVELOPMENTS

Strategic Partnership with JD.com Inc.

On 10 March 2014, we completed a transaction with JD.com Inc. (“**JD.com**”), a leading online direct sales company in the PRC, to collaborate with JD.com in providing eCommerce services to mobile and Internet users in China. As the largest online direct sales company in the PRC in terms of transaction volume in 2013, JD.com offers products and services through its *www.jd.com* website and mobile applications. JD.com offers one of the widest ranges of products on their website of any eCommerce

company in the PRC, and has the largest fulfilment infrastructure of any ecommerce company in China. JD.com is currently contemplating an initial public offering (the “**IPO**”) and has filed a registration statement on form F-1 with the U.S. Securities and Exchange Commission. JD.com is a company incorporated in the Cayman Islands with limited liability.

In connection with the transaction, we purchased 351,678,637 ordinary shares of JD.com (the “**Pre-IPO Purchase**”), representing 15% of all outstanding JD.com ordinary shares (including all JD.com ordinary shares issuable in respect of securities convertible into or exchangeable for JD.com ordinary shares, all share appreciation rights, options, warrants, share entitlements and other rights to purchase or subscribe for JD.com ordinary shares or securities convertible into or exchangeable for JD.com ordinary shares) at a total consideration of net cash payment, certain eCommerce related businesses and assets of the Group, and 9.9% equity interest in Shanghai Icscon E-commerce Development Company Limited (“**Shanghai Icscon**”) with a call option granted to acquire the remaining equity interests held by the Group in Shanghai Icscon on or before 10 March 2017, subject to compliance with all applicable laws. In addition, the Group entered into a strategic cooperation agreement with JD.com.

Pursuant to the strategic co-operation agreement with JD.com, we will support JD.com’s physical goods eCommerce business by offering level 1 access points in Weixin and Mobile QQ, as well as support from other key platforms. Both parties will also co-operate on online payment services to improve users’ online shopping experience.

Furthermore, we have entered into an IPO share subscription agreement under which we agree to acquire at the IPO price an additional 5% all outstanding JD.com ordinary shares (including all JD.com ordinary shares issuable in respect of all outstanding securities convertible into or exercisable or exchangeable for JD.com ordinary shares and all JD.com ordinary shares issuable in respect of all outstanding options, warrants and other rights to acquire JD.com ordinary shares or securities convertible into or exercisable or exchangeable for JD.com ordinary shares) immediately after the consummation of the IPO and after taking into account any exercise of the green-shoe or over-allotment option in connection with the IPO. Our obligation to subscribe for IPO shares of JD.com will terminate if the IPO is not completed by 30 June 2015.

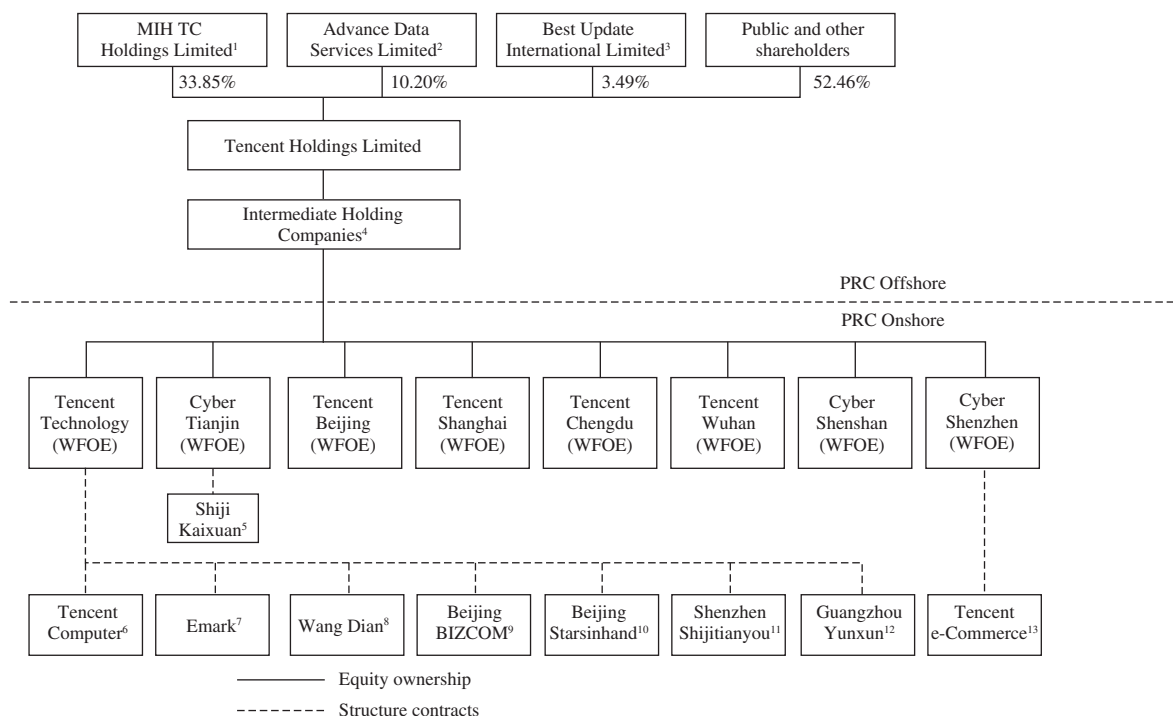
We have also granted a call option to JD.com, which gives JD.com the right to acquire all of the interests held by us in Shanghai Icscon immediately before the exercise of the call option for the higher of RMB800 million and the then fair market value of the such interest. The call option will expire on 10 March 2017 and may only be exercised in compliance with all applicable laws.

We have also entered into an amended and restated shareholders agreement with JD.com and certain shareholders of JD.com, providing for us to have the right to nominate one director to the board of directors of JD.com and restricting our ability to dispose of shares acquired in the Pre-IPO purchase without the consent of JD.com for a period of three years.

To effect the transactions, the Company, JD.com and their respective subsidiaries or affiliates entered into certain other transaction documents, including a series of onshore equity transfer agreements and asset transfer agreements, which contain customary terms, conditions, representation, warranties and indemnities which are usual and customary for transactions of similar nature and scale.

OUR CORPORATE STRUCTURE

The following diagram illustrates our principal corporate and share ownership structure as of 31 December 2013.



Notes:

- (1) MIH TC Holdings Limited is controlled by Naspers Limited through its wholly owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings (Proprietary) Limited.
- (2) Wholly owned by Mr. Ma Huateng.
- (3) Wholly owned by Mr. Zhang Zhidong.
- (4) Intermediate Holding Companies include various Group companies established for the purpose of holding interests in various WFOEs as well as other investments of the Group.
- (5) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (6) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (7) Emark: Beijing Emark Information Technology Company Limited 北京驛碼神通信息技術有限公司.
- (8) Wang Dian: Nanjing Wang Dian Technology Company Limited 南京網典科技有限公司.
- (9) Beijing BIZCOM: Beijing BIZCOM Technology Company Limited 北京英克必成科技有限公司.
- (10) Beijing Starsinhand: Beijing Starsinhand Technology Company Limited 北京市掌中星天下信息技術有限公司.
- (11) Shenzhen Shijitianyou: Shenzhen Shiji Tian You Technology Company Limited 深圳市世紀天游科技有限公司.
- (12) Guangzhou Yunxun: Guangzhou Yunxun Technology Company Limited 廣州雲訊信息科技有限公司.
- (13) Tencent e-Commerce: Shenzhen Tencent e-Commerce Information Technology Company Limited 深圳市騰訊電商信息技術有限公司.

GENERAL INFORMATION

The Company was incorporated in the BVI on 23 November 1999 as an international business company with limited liability, with a registration number of 353466. The Company was registered by way of continuation in the Cayman Islands on 27 February 2004 as an exempted company with limited liability under the Companies Law. On 16 June 2004, the Company publicly offered its shares for listing on the Main Board of the SEHK under stock code 00700. It became one of the then 43 constituents of the Hang Seng Index on 10 June 2008. Its principal place of business in the PRC is located at Tencent Building, Kejizhongyi Avenue, Hi-tech Park, Nanshan District, Shenzhen, 518057, the PRC. Its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Our website is *www.tencent.com*. Information contained on our website does not constitute part of this Offering Circular.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the “*Terms and Conditions of the Notes*” below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Tencent Holdings Limited.
Programme Size	Up to U.S.\$5,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in “ <i>Subscription and Sale</i> ”)) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Arranger	Deutsche Bank AG, Singapore Branch.
Dealers	Australia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, Barclays Bank PLC, Citigroup Global Markets Inc., Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch International and Standard Chartered Bank and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series of Notes.
Principal Paying Agent	Deutsche Bank AG, Hong Kong Branch.
Registrars	Deutsche Bank Luxembourg S.A. (in relation to each Series of Unrestricted Notes other than Unrestricted Notes cleared through DTC (“ DTC Unrestricted Notes ”) and CMU Notes), Deutsche Bank AG, Hong Kong Branch (in relation to each Series of CMU Notes) and Deutsche Bank Trust Company Americas (in relation to each Series of DTC Notes).
Transfer Agents and Paying Agents	Deutsche Bank AG, Hong Kong Branch (in relation to each Series of Unrestricted Notes other than DTC Unrestricted Notes) and Deutsche Bank Trust Company Americas (in relation to each Series of DTC Notes).
CMU Lodging Agent	Deutsche Bank AG, Hong Kong Branch.
Trustee	DB Trustees (Hong Kong) Limited.

Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Clearing Systems	With respect to Notes (other than CMU Notes), Euroclear, Clearstream, Luxembourg and/or DTC and such other clearing system as shall be agreed between the Issuer, the Trustee, the Agents and the relevant Dealer. With respect to CMU Notes, the CMU Service (each of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service, a “ Clearing System ”). See “ <i>Clearance and Settlement</i> ”.
Form of the Notes	<p>Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i>. Bearer Notes will be issued only under Regulation S outside the United States to non-U.S. persons.</p> <p>Each Series of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement, which, in each case, may be deposited on the issue date with a common depository for Euroclear, Clearstream, Luxembourg or any other agreed clearance system compatible with Euroclear and Clearstream, Luxembourg or, in respect of CMU Notes, a sub-custodian for the CMU Service. A Temporary Global Note will be exchangeable, in whole or in part, as described therein, for interests in a Permanent Global Note or if so stated in the relevant Pricing Supplement, Definitive Notes, as described under “<i>Form of the Notes</i>”. A Permanent Global Note may be exchanged, in whole but not in part, for Definitive Notes only upon the occurrence of an Exchange Event as described under “<i>Form of the Notes</i>”. Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures or the time being of Euroclear, Clearstream, Luxembourg, the CMU Service and/or any other agreed clearance system, as appropriate.</p>

Bearer Notes will be issued in compliance with applicable U.S. tax rules. Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations § 1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the “**D Rules**”) unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation § 1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the “**C Rules**”) or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute “registration required obligations” for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement. Bearer Notes that are issued in compliance with the D Rules must be initially represented by a Temporary Global Note.

Each Series of Registered Notes, which are sold outside the United States to non-U.S. persons in reliance on Regulation S, will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Global Note Certificate (as defined in the “*Form of the Notes*”), which will be deposited on or about its issue date with a Common Depository for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg or with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or, in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA. With respect to all offers or sales by a Dealer of an unsold allotment or subscription and in any case prior to the expiry of the distribution compliance period (as defined in Regulation S), beneficial interests in a Global Note Certificate of such Series may be held only through Euroclear, Clearstream, Luxembourg, DTC for the accounts of Euroclear and Clearstream, Luxembourg or the CMU Service. Regulation S Global Note Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in “*Form of the Notes*”.

Each Tranche of Registered Notes sold to QIBs in compliance with Rule 144A and subject to the restrictions described in “*Transfer Restrictions*” and “*Subscription and Sale*” and the applicable Pricing Supplement will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Rule 144A Global Note Certificate, which will be deposited on or about its issue date with a custodian for, and registered in the name of a nominee of, DTC. Restricted Global Note Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in “*Form of the Notes*”.

Application will be made to have Global Notes or Global Note Certificates of any Series accepted for clearance and settlement through the facilities of DTC, Euroclear, Clearstream, Luxembourg and/or the CMU Service, as appropriate.

Currencies

Notes may be denominated in any currency or currencies, agreed between the Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Denominations

Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Status of the Notes

The Notes constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which will at all times (i) rank equally without any preference among themselves; (ii) rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application; (iii) rank senior in right of payment to all of the Issuer's existing and future indebtedness expressly subordinated in right of payment to the Notes; (iv) be effectively subordinated to all of the Issuer's existing and future secured indebtedness, to the extent of the value of the assets serving as security therefor; and (v) be structurally subordinated to all existing and future indebtedness and other liabilities of the Issuer's Subsidiaries. See "*Terms and Conditions of the Notes — Status — Status of Notes*".

Issue Price

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.

Maturities

Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Finance Services and Markets Act 2000 as amended (“FSMA”) by the Issuer.

Redemption	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) as described in Condition 10(c) (<i>Redemption at the option of the Issuer</i>) and/or the Noteholders to the extent (if at all) specified in the condition 10(e) (<i>Redemption at the option of the Noteholders</i>).
Tax Redemption	Except as described in “ <i>Optional Redemption</i> ” above, early redemption of Notes will only be permitted for tax reasons as described in Condition 10(b) (<i>Redemption for tax reasons</i>).
Triggering Event Offer	Upon the occurrence of certain changes in or amendments to PRC laws and regulations as described in Condition 10(f) (<i>Redemption for Triggering Event</i>), we must (subject to certain exceptions) make an offer to repurchase all or, at the Noteholder’s option, any part of such Noteholder’s Notes at a purchase price equal to the Early Redemption Amount (Triggering Event), plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Covenants	The Notes will contain certain covenants including Condition 5(a) (<i>Negative Pledge</i>), Condition 5(b) (<i>Consolidation, Merger and Sale of Assets</i>) and Condition 5(c) (<i>Reports</i>).
Cross Acceleration	The Notes will contain a cross acceleration provision as further described in Condition 14 (<i>Events of Default</i>).

Withholding Tax	All payments in respect of Notes will be made free and clear of withholding taxes of the Cayman Islands and the PRC, unless the withholding is required by law. In that event, the Issuer will (subject to certain exceptions as described in Condition 13 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes, had no such withholding been required.
Listing and Trading	<p>Application has been made to the SEHK for the listing of the Programme during the 12-month period from the date of this Offering Circular on the SEHK by way of debt issues to professional investors (as defined in the SFO) only.</p> <p>Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).</p> <p>However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or listed, traded or quoted on or by any other competent authority, exchange or quotation system.</p>
Governing Law	The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Rating	<p>Standard & Poor’s Rating Services, a division of the McGraw Hill Companies, Inc. (“S&P”) has assigned a rating of “A-” to the Programme and Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “A3” to the Programme. The rating is only correct as at the date of the Offering Circular. Notes issued under the Programme may be rated or unrated.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at anytime by the assigning rating agency.</p> <p>Each Series of Notes may be assigned ratings by any of S&P and/or Moody’s, as specified in the applicable Pricing Supplement.</p>
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the PRC, Hong Kong, Japan and Singapore, see “ <i>Subscription and Sale</i> ” below.

For the purposes of Regulation S, Category 2 selling restrictions will apply unless otherwise indicated in the relevant Pricing Supplement.

In connection with the offering and sale of a particular Series of Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement. Bearer Notes will be issued in compliance with the D Rules unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with the C Rules or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute “registration required obligations” for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement; Bearer Notes with a term of 365 days or less (taking into account unilateral extensions and rollovers) will be issued other than in compliance with the D Rules or the C Rules and will be referred to in the applicable Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) is not applicable.

Initial Delivery of Notes.....

On or before the issue date for each Series, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the CMU Service or any other clearing system or may be delivered outside any clearing system *provided that* the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The summary consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 have been derived from the Company's audited consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 included elsewhere in this Offering Circular.

The summary financial data below should be read in conjunction with “*Management's Discussion and Analysis of Financial Condition and Results of Operations*” and the audited consolidated financial statements included elsewhere or incorporated by reference in this Offering Circular. The financial and operating information for the year ended 31 December 2013 is not necessarily indicative of the results that may be expected for the year ending 31 December 2014.

SUMMARY CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2011, 2012 AND 2013

	Year ended 31 December			(US\$ in millions)
	2011	2012	2013	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	
Revenues:				
VAS ⁽¹⁾	26,314	35,718	44,985	7,431
Online advertising	1,992	3,382	5,034	832
eCommerce transactions ⁽²⁾	—	4,428	9,796	1,618
Others	190	366	622	102
Total revenues	28,496	43,894	60,437	9,983
Cost of revenues	(9,928)	(18,207)	(27,778)	(4,588)
Gross profit	18,568	25,687	32,659	5,395
Interest income	469	836	1,314	217
Other gains/(losses), net	421	(284)	904	150
Selling and marketing expenses.....	(1,921)	(2,994)	(5,695)	(941)
General and administrative expenses	(5,283)	(7,766)	(9,988)	(1,650)
Operating profit	12,254	15,479	19,194	3,171
Finance income/(costs), net.....	36	(348)	(84)	(14)
Share of (losses)/profit of associates.....	(25)	(54)	213	35
Share of losses of joint ventures	(166)	(26)	(42)	(7)
Profit before income tax	12,099	15,051	19,281	3,185
Income tax expense.....	(1,874)	(2,266)	(3,718)	(614)
Profit for the year	10,225	12,785	15,563	2,571

Note:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenue was generated from eCommerce transactions in the periods prior to 1 January 2012.

**SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF
31 DECEMBER 2011, 2012 AND 2013**

	As of 31 December			
	2011	2012	2013	
	(Audited)	(Audited)	(Audited)	(US\$ in millions)
	(RMB in millions)	(RMB in millions)	(RMB in millions)	
Cash and cash equivalents.....	12,612	13,383	20,228	3,341
Restricted cash ⁽¹⁾	4,943	2,520	4,131	682
Term deposits	13,716	13,806	19,623	3,241
Total current assets	35,503	36,509	53,686	8,868
Term deposits	—	10,892	11,420	1,886
Total non-current assets	21,301	38,747	53,549	8,846
Total assets	56,804	75,256	107,235	17,714
Borrowings	7,999	1,077	2,589	428
Total current liabilities	21,183	20,665	33,267	5,495
Long-term notes payable	3,733	7,517	9,141	1,510
Borrowings	—	2,106	3,323	549
Total non-current liabilities	6,533	12,443	15,505	2,562
Total liabilities	27,716	33,108	48,772	8,057
Total equity	29,088	42,148	58,463	9,657
Total liabilities and equity	56,804	75,256	107,235	17,714

Note:

- (1) Includes, among others, restricted cash pledged for secured bank borrowings which amounted to RMB3,072 million, Nil and Nil as of 31 December 2011, 2012 and 2013, respectively.

**SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2011, 2012 AND 2013**

	Year ended 31 December			
	2011	2012	2013	
	(Audited)	(Audited)	(Audited)	(US\$ in millions)
	(RMB in millions)	(RMB in millions)	(RMB in millions)	
Net cash flows generated from operating activities.....	13,358	19,429	24,374	4,026
Net cash flows used in investment activities ⁽¹⁾	(15,355)	(16,270)	(19,134)	(3,160)
Net cash flows generated from/(used in) financing activities ⁽²⁾	4,373	(2,386)	1,708	282
Net increase in cash and cash equivalents	2,376	773	6,948	1,148
Cash and cash equivalents at beginning of year.....	10,408	12,612	13,383	2,211
Exchange losses on cash and cash equivalents	(172)	(2)	(103)	(18)
Cash and cash equivalents at end of year	<u>12,612</u>	<u>13,383</u>	<u>20,228</u>	<u>3,341</u>

Notes:

- (1) Includes, among others, payment for capital expenditures and game and other content licences. Payment for capital expenditure represents the amount paid for purchase of fixed assets, construction in progress and investment properties, payments for land use rights and payments for intangible assets (excluding game and other content licences), which amounted to RMB4,210 million, RMB4,180 million and RMB5,124 million (US\$846 million) for the years ended 31 December 2011, 2012 and 2013, respectively.
- (2) Includes, among others, dividends paid to the Company's shareholders and non-controlling interest owners, which amounted to RMB895 million, RMB1,225 million and RMB1,541 million (US\$255 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

OTHER FINANCIAL DATA

	Year ended 31 December			
	2011	2012	2013	
	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(US\$ in millions, except for %)
EBITDA ⁽¹⁾	13,298	17,540	20,566	3,397
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734	3,590
Adjusted EBITDA margin ⁽²⁾	49%	42%	36%	36%
Net Cash ⁽³⁾	17,668	27,381	36,218	5,981

	As of and for the year ended 31 December		
	2011	2012	2013
	(RMB in millions, except for ratios)		
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734
Interest Expense	73	327	394
Ratios:			
Adjusted EBITDA ⁽¹⁾ to Interest Expense	192x	56x	55x
Total Debt ⁽⁴⁾ to Adjusted EBITDA ⁽¹⁾	0.84x	0.58x	0.69x

Notes:

- (1) EBITDA for any year consists of operating profit less interest income, and plus other losses/(gains), net, depreciation of fixed assets and investment properties and amortisation of intangible assets. Other losses/(gains), net consist primarily of the gains on disposal/deemed disposal of investees, dividend income, subsidies and tax rebates, donation to the Tencent Charity Fund, losses from derivative financial instruments and impairment provision for investees. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses. EBITDA and Adjusted EBITDA are not standard measures under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to cash flows, net income or any other measure of performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA and Adjusted EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA and Adjusted EBITDA because we believe they are a useful supplement to cash flows data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. EBITDA and Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA or Adjusted EBITDA to the EBITDA or Adjusted EBITDA presented by other companies because not all companies use the same definition.
- (2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by the revenue for the relevant year.

- (3) Net cash represents year end balance and is calculated as cash and cash equivalents, term deposits and restricted cash pledged for secured bank borrowings minus total debt.
- (4) Total debt consists of our short-term borrowings, which comprise our borrowings accounted for as RMB borrowings (both secured and unsecured), our U.S. dollar borrowings (which are all unsecured), our U.S. dollar denominated unsecured bonds (which were issued in March 2011 and matured and were fully paid off in March 2012), our long-term borrowings, which comprise our borrowings accounted for as offshore U.S. dollar borrowings (which are all unsecured), the 2015 Notes, the 2016 Notes and the 2018 Notes.

The following table reconciles our operating profit under IFRS to our EBITDA and Adjusted EBITDA for the years indicated.

	Year ended 31 December			
	2011	2012	2013	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Operating profit	12,254	15,479	19,194	3,171
Adjustments:				
Interest income	(469)	(836)	(1,314)	(217)
Other (gains)/losses, net.....	(421)	284	(904)	(150)
Depreciation of fixed assets and investment properties.....	1,208	1,880	2,484	410
Amortisation of intangible assets	726	733	1,106	183
EBITDA	13,298	17,540	20,566	3,397
Equity-settled share-based compensation expenses	733	905	1,168	193
Adjusted EBITDA	14,031	18,445	21,734	3,590

OPERATING DATA

The following data sets forth certain operating statistics relating to our Internet platforms and value-added services as of the dates and for the periods presented:

	As of 31 December		
	2011	2012	2013
	(in millions)		
MAU of QQ ⁽¹⁾	721.0	798.2	808.0
Combined MAU of Weixin and WeChat ⁽²⁾	—	160.8	355.0
MAU of Qzone ⁽³⁾	552.1	602.7	625.2
Fee-based VAS registered subscriptions.....	108.6	104.5	88.6

Notes:

- (1) MAU of QQ figures denote the total number of user accounts that logged in at least once during the last calendar month prior to the relevant date.
- (2) Combined MAU of Weixin and WeChat figures denote the total number of user accounts that sent out one or more messages via Weixin and WeChat or conducted other active operations on Weixin and WeChat, such as logging into Game Center or updating Moments, at least once during the last calendar month prior to the relevant date. The MAU of Weixin and WeChat is not available for the year ended 31 December 2011.

- (3) MAU of Qzone figures denote the total number of user accounts that logged in Qzone at least twice during the last calendar month prior to the relevant date.

	For the three months ended 31 December		
	2011	2012	2013
	(in millions)		
PCU of QQ ⁽¹⁾	152.7	176.4	180.3
PCU of QQ Game Platform ⁽²⁾	8.4	8.8	8.5

Notes:

- (1) PCU of QQ figures denote the highest number of simultaneous online user accounts of our QQ platform during the period.
- (2) PCU of QQ Game Platform figures denote the highest number of simultaneous online user accounts of our QQ Game Platform during the period.

RISK FACTORS

Any investment in the Notes involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this Offering Circular, before making an investment decision. If any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be materially and adversely affected. Additional risks or uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. There can be no assurance that any of the events discussed in the risk factors below will not occur and if such events do occur, you may lose all or part of your original investment in the Notes.

RISKS RELATING TO OUR BUSINESS

We operate in a very competitive market. If we fail to compete effectively, we may lose users to competitors and our business, future results of operations and prospects could be materially and adversely affected.

We face significant competition in almost every aspect of our business, particularly from companies that provide Internet communication tools, online games, social networking, microblog, online advertising as well as other Internet and mobile value-added services and products. We compete directly with other major PRC Internet portals and websites to provide comprehensive Internet and mobile value-added services to customers. In addition, we face increased competition from international competitors that may establish joint venture companies with domestic PRC companies to provide services based on the foreign investors' technology and experience developed in their home markets. Some of our competitors have widely recognised brand names in the PRC and may have greater financial resources than we do. Moreover, present or future competitors may offer services and products that provide more favourable technology, performance and pricing than we can provide, with the result that their services and products could achieve greater market acceptance than our services and products.

In particular, the online game market in the PRC is increasingly competitive. We expect more companies to enter into this sector and a wider range of online games to be introduced into the PRC market. Competition from other online game operators, both based in the PRC as well as overseas, is likely to increase in the future and may make it more challenging for us to retain existing users and attract new users.

We also face increasing competition in our community and open platform services, where we compete with both PRC-based and global SNS and microblog operators (including international operators seeking to enter the PRC market) to attract users that may in turn not subscribe for our premium services or other fee-based products. Our business also generally competes with other forms of entertainment, such as television and movies.

Furthermore, some of our competitors may adopt various unilateral measures to target our business, such as by preventing users of their products from using some or all of our products at the same time (for example, by programming their products in a way that disables the use of our products) or by attacking our platforms with spam or other virus-like programs. Any of these measures taken by our competitors could affect our number of users, reduce our market shares, and negatively affect our brand and reputation.

If we are unable to compete effectively in our business, it could result in decreases in user numbers and user traffic over our platforms, and lead to increased spending for marketing and development, any of which could materially and adversely affect our business, future results of operations and prospects.

If we fail to keep up with the technological developments and users' changing requirements, we may not be able to increase the size and level of engagement of our user base and our business, future results of operations and prospects could be materially and adversely affected.

Our business and prospects will depend on our ability to respond to rapidly changing technologies, adapt our services to evolving industry standards and improve the performance and reliability of our services. Our failure to adapt to such changes could harm our business. In addition, changes in user behavior resulting from technological developments may also adversely affect us. For example, the number of people accessing the Internet through devices other than personal computers, including mobile phones and other hand-held devices, has increased in recent years, and we expect this trend to continue while 3G, 4G and more advanced mobile communications technologies are broadly implemented. The increased use of mobile devices as a substitute for use of personal computers may reduce website user traffic and we may incur substantial expenditures to adapt to this trend. If we are not able to successfully monetise this increasing rate of mobile usage, our business, results of operations and growth prospects may be materially and adversely affected.

If we fail to develop services and products that are compatible with current and future mobile devices, or if the services and products we develop are not widely accepted and used by mobile device users, we may not be able to increase our mobile user base. If we fail to anticipate and meet the needs of our users, the size, engagement and loyalty level of our user base may decrease, which may render our platforms less attractive to advertisers and users. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or integrate our products, services or technologies. If we fail to anticipate and adapt to material technological changes, our market share could suffer, which in turn could materially and adversely affect our business, future results of operations and prospects.

We operate in a rapidly evolving environment and our existing offerings may become less popular as we launch new services and products or they may become incompatible with new technologies and devices.

We operate in a dynamic and evolving industry with the rapid emergence of new technologies and new services and products. To remain competitive, we must introduce new services and products to diversify our portfolio, adapt to new technologies, appeal to changing consumer trends and preferences, and generate additional revenue. We may continue to exit some legacy business areas such as Internet search in order to focus on the key drivers of our growth. Further, some of our new services and products may attract users from our existing offerings. Some of our existing services and products may also become incompatible with emerging technologies and new devices. For example, our legacy voice value-added services have become less popular with the expansion of the 3G and 4G technology platforms in the PRC and increased usage of smartphones and other Internet-enabled mobile devices. If we are unable to continue to launch new services and products that can offset the loss of popularity of our maturing services and products, our market share could erode, which in turn could materially and adversely affect our financial condition and results of operations.

If we fail to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, future results of operations and prospects could be materially and adversely affected.

It is critical for us to maintain and develop our brands so as to effectively expand our user base, maintain and increase our business partnerships, and grow our revenue. Well-recognised brands are critical to increasing the number and engagement of our users and, in turn, enhancing our attractiveness to advertisers. Since we operate in a highly competitive market, maintaining and enhancing our brands directly affects our ability to maintain our market position. Our main competitors also have established brands and are continuing to take steps to increase their brand recognition and we must continue to maintain and enhance the recognition and value of our brands in this highly competitive market. In order to attract and retain users, we may need to substantially increase our expenditures for creating and maintaining brand loyalty. As a result, our sales and

marketing expenses may increase significantly, which may impact our profitability. Our success in promoting and enhancing our brands, as well as our ability to remain competitive, will also depend on our success in offering high-quality content, features and functionality. In addition, the use of words or branding similar to our brands by third parties in other industries could dilute the brand recognition for our brands. If we are unable to maintain and enhance our brand recognition, our business, future results of operations and prospects could be materially and adversely affected.

We work closely with telecommunications operators in a number of ways with respect to our value-added businesses, including the billing of and collection from our users. If our service agreements with telecommunications operators were to be terminated, altered or not renewed, or if such operators do not provide continuous or adequate service, our business, future results of operations and prospects could be materially and adversely affected.

A portion of the revenue from our value-added business is derived from service agreements with China Mobile, China Unicom and China Telecom. Pursuant to such service agreements, the telecommunications operators bill and collect fees from mobile subscribers for the value-added services we provide through their networks. Our business relies materially on fees collected through these operators from our subscribers. Further, we rely on telecommunications operators in various ways including:

- using telecommunications operators' networks and gateways to deliver our services and products;
- using and relying on telecommunications operators' billing systems to charge our users through their mobile phone bills; and
- relying on telecommunications operators' collection proxy services to collect payments from subscribers.

We have limited control over the usage fees that telecommunications operators charge their end customers and we have limited access to alternative networks to deliver our services and products or collect fees from our mobile phone users. If telecommunications operators' usage fees or other charges to their end customers increase, our user traffic may reduce. Further, if our relationships with telecommunications operators are terminated, curtailed or renewed on terms that are unfavorable to us, including increases in service fees for using their networks, our ability to deliver services and products to users may be affected, which could have a material and adverse effect on our business, future results of operations and prospects.

Significant changes in the policies or guidelines of PRC telecommunications operators with respect to services provided by us could result in lower revenue or additional costs for us and our business, future results of operations and prospects could be materially and adversely affected.

From time to time, PRC telecommunications operators issue policy or guideline changes stating their preferences for certain actions to be taken by service providers using their networks. Due to our reliance on these telecommunications operators, a significant change in their policies or guidelines could cause our revenue to decrease or operating costs to increase. For example, on 30 November 2009, China Mobile implemented a series of measures targeted at eliminating offensive or unauthorised content, including pornographic content, on PRC-based WAP sites. As a result, China Mobile suspended billing for their customers for all WAP services, including those services that do not contain offensive or unauthorised content. On 16 April 2010, China Mobile implemented a policy requiring service providers to implement reminders for charges for value-added services and subscription services together with two-step confirmation, and in early 2011 China Mobile implemented a new policy designed to enhance user ability to query and cancel value-added services, both of which have negatively impacted our VAS revenue. In July 2013, the Ministry of Industry and Information Technology ("MIIT") promulgated the Regulations on Protection of Personal Information of Telecommunications and Internet Users (the "**Regulations on Network Information Protection**")

(電信和互聯網用戶個人資訊保護規定), effective 1 September 2013, to enhance and enforce legal protection over user information security and privacy on the Internet. The Regulations on Network Information Protection require Internet operators to take various measures to ensure the privacy and confidentiality of users' information. We cannot assure you that PRC telecommunications operators will not introduce additional requirements or adopt other policies which may require significant changes in the way we promote and sell our value-added services, any of which could have a material and adverse effect on our business, future results of operations and prospects.

We face uncertainties regarding the growth of the online game industry and continuous market acceptance of our online games and in-game items.

We have derived a significant portion of our revenue from the online game industry, which is rapidly evolving. Revenue from online games constituted 54% of our total revenue for the year ended 31 December 2012 and 53% of our total revenue for the year ended 31 December 2013. The growth of the online game industry is subject to a high degree of uncertainty. Our future results of operations associated with this industry will depend on numerous factors, including:

- Internet infrastructure, growth of personal computing, Internet and broadband penetration in the PRC;
- whether the PRC online game industry continues to grow and the rate of any such growth;
- laws, rules, regulations and policies affecting the online game industry, including those affecting Internet cafes in the PRC, where a substantial portion of our game players access online games;
- general economic conditions, particularly economic conditions that impact the level of discretionary consumer spending;
- the availability and popularity of other forms of entertainment;
- changes in consumer demographics, public tastes and preferences;
- our ability to develop or acquire new online games and related products to meet market demand and user preferences;
- our ability to develop or acquire mobile games to adapt to emerging mobile Internet trends;
- the popularity and price of new online games and in-game items that we and our competitors launch and distribute; and
- our ability to timely upgrade and improve our existing games to extend their lifespans and to maintain their competitive positions in the online game market.

Due to these challenges and uncertainties, we cannot assure you that our online game business will continue to grow at the rates it has in the past. Our failure to successfully develop this business could have a material and adverse effect on our results of operations and prospects.

If we are unable to consistently develop, acquire, co-develop or licence additional successful online games, our business, future results of operations and prospects could be materially and adversely affected.

In order to maintain our long-term profitability and operational success, we must continue to develop, acquire, co-develop or licence new online games that are attractive to users before our existing online games reach the end of their commercial lifespans. This requires us to maintain and grow our in-house

online game development capability to anticipate changing consumer tastes and preferences, adopt new technologies, attract, retain and motivate talented online game developers and effectively execute online game development plans. There is no assurance that we can successfully maintain or develop our in-house online game development capability in such manner.

We may also acquire online game development and operational companies from time to time. The selection of acquisitions depends on the availability and commercial potential of suitable acquisition targets and may be subject to governmental approvals. Future acquisitions may also expose us to potential risks, including risks associated with the assimilation of new operations, technologies and personnel, unforeseen or hidden liabilities and potential loss of, or harm to, our relationships with customers, licensors and other suppliers as a result of integration of new businesses.

We may also enter into co-development arrangements with key players in the game industry from time to time. These arrangements depend on the availability of suitable game titles and co-development partners and our ability to implement the co-development on planned schedules.

Licensing successful online games has been, and will continue to be, an important part of our strategy to provide market leading value-added services. The success of such licensing arrangements depends on our ability to identify games that will appeal to users and to obtain government approvals required for the licensing and operation of such games. However, it is difficult to determine which online games will appeal to users. In addition, many of the games that are licenced by overseas developers were not designed specifically for the PRC online game market, further complicating the task of identifying or implementing games that will appeal to users. Moreover, due to increased competition among online game operators in the PRC, upfront licence fees for licenced games have increased and most licensors are demanding guaranteed minimum royalty payments. Increased competition or potential commercial disputes with or among our overseas licensors of our existing or future online games may have an adverse impact on our online games business.

There is no assurance that the online games which we have developed, acquired, co-developed or licenced from third parties will be attractive to users and will always comply with relevant content restrictions such as government regulations. If we are not able to mitigate the potential adverse impact as a result of competition or disputes among our overseas licensors and consistently develop, acquire, co-develop or licence online games with continuing appeal to users, our business, future results of operations and prospects could be materially and adversely affected.

We may not be successful in implementing our growth strategies or sustaining our historical growth rate.

We are pursuing a number of growth strategies, including expanding our user base and increasing user engagement, further monetising our user base and user traffic, pursuing an open platform strategy and capturing the emerging mobile Internet trend. We are also pursuing opportunities for growth through acquisitions and investments. Although we have achieved significant growth in the past, we cannot be assured that this level of significant growth will be sustainable or achieved at all in the future. For example, future saturation in the market for online services in the PRC could hamper our ability to continue to grow our user base. As we expand into new markets we may face challenges from local incumbents and have difficulty gaining consumer mindshare. Also, as we expand into online-to-offline payments and other new lines of business, we may become subject to new technical challenges and regulatory requirements that could restrict our ability to effectively grow these new business lines. Also, as we enter into new business segments we may not be able to maintain our historical margins. Further, we cannot assure you whether all or any of these strategies will be successful. If we are unable to implement our growth strategies, our competitiveness may be materially and adversely affected, which would have a material and adverse effect on our results of operations and prospects.

Our past and future acquisitions and investments could have a material and adverse effect on our ability to manage our business.

As part of our strategy to further expand our business, we may continue to acquire additional products, assets, technologies or businesses that are complementary to our existing business if and when appropriate opportunities arise. Future acquisitions and the subsequent integration of new products, assets, technologies and businesses into our existing business would require attention from our management and result in diversion of resources from our existing business. The areas where we face risks include:

- diversion of management time and focus from operating our business to address acquisition integration challenges;
- implementation or remediation of controls, procedures, and policies at the acquired company;
- integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions;
- transition of operations, users, and customers onto our existing platforms;
- cultural challenges associated with integrating employees from the acquired company into our organisation, and retention of employees from the businesses we acquire;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities;
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties;
- the ability of MOFCOM to require the subsequent unwinding of completed M&A transactions or impose significant fines in respect of such transactions;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries; and
- failure to successfully further develop the acquired technology.

Also, acquired products, assets, technologies or businesses may not yield the results that we anticipate. In addition, acquisitions could result in the use of substantial amounts of cash, significant amortisation expenses related to identifiable intangible assets and exposure to potential impairment or write-offs of such investments, the relevant goodwill and/or identified intangible assets or potential unknown liabilities of any such acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible regulatory or shareholders' approval in Hong Kong, we may also have to obtain approval from the relevant government authorities for the acquisitions and comply with any applicable laws and regulations, which could result in increased costs and delays. Further, the value of our investments is subject to market and non-market fluctuations which are attributable to factors beyond our control.

Our failure to properly and timely address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realise the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortisation expenses, write-offs of goodwill, or even provisions for prolonged impairment in value, any of which could have a material and adverse effect on our business, future results of operations and prospects.

Our growth may not be sustainable due to limitations in our infrastructure or resources and any expansion or upgrades of our infrastructure or resources may require significant costs.

We have limited operational, administrative and financial resources and these resources may be inadequate to sustain the growth we want to achieve. As our user base increases and as we diversify into other business segments, we will need to increase our investment in our technological infrastructure and facilities; improve existing operational and financial systems, procedures and controls; and expand, train and manage our growing employee base. Further, our management will be required to maintain, and expand, our relationships with telecommunications operators, Internet and other online service providers, content providers, regulators, and other third parties necessary to the growth of our business. Almost all Internet and mobile access in the PRC is maintained through state-owned telecommunications operators under the control and supervision of MIIT, and we use a limited number of telecommunications operators to provide us with data communications capacity through local telecommunications lines and Internet data centers to host our servers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our websites and increasing user levels on our platform. We cannot assure you that the Internet infrastructure and the fixed and mobile telecommunications networks in the PRC will be able to support the demands associated with the continued growth of our Internet usage. If we are unable to manage our growth and expansion effectively, including through investments in our internal systems and structures, the quality of our service could deteriorate and our business, future results of operations and prospects could be materially and adversely affected.

We rely on a number of third parties to provide content to our websites and various services and technologies. Any disruption in the provision of this third-party content or these services or technologies could materially and adversely affect our business, future results of operations and prospects.

One of our principal strengths is our ability to create a distinct online community through our services and content. We rely on a number of third parties to create traffic and provide content in order to make our websites and services more attractive to consumers and advertisers, through which we may sustain and grow our online community. Third parties that provide content for our websites and services include both commercial content providers with which we have contractual relationships and our registered community members who post articles and other content on our websites or our other open platform offerings. If these third parties fail to develop and maintain high-quality content, our websites or other open platform offerings could lose viewers and advertisers. Most of our contractual arrangements with third-party content providers are not exclusive and are short-term, or may be terminated at any time for any reason by either party. Recently, many content providers have increased the fees they charge us for their content. This trend could increase our costs and operating expenses and could adversely affect our ability to obtain content at an economically acceptable cost. There can be no assurance that our existing relationships with third-party content providers, if maintained, will result in sustainable business partnerships, successful service offerings, an acceptable level of traffic on our websites or revenue, or will not be terminated. Also, a majority of this third-party content is also available from other sources or may be provided to other Internet, SNS or other social media companies. If other Internet, SNS or other social media companies present the same or similar content in a superior manner, this could reduce our visitor traffic, which could have a material and adverse effect on our business, future results of operations and prospects.

In addition, our business also depends upon services provided by, and relationships with, third-party service and technology providers such as telecommunications operators, advertising agencies that represent advertisers, game developers and online payment vendors. We generally do not have long-term co-operation agreements or exclusive arrangements with these third parties and they may

elect to direct business opportunities to our competitors. With respect to telecommunications operators and online game developers, we have revenue sharing arrangements that require periodic renewals. If we fail to retain and enhance our business relationships with these third parties, or renew our business arrangements with these third parties on the same or more favorable terms to us, our business, future results of operations and prospects may be materially and adversely affected.

We face uncertainties regarding the legal liability for providing third-party services, products, content and applications on our platforms.

One of our strategies is to pursue an open platform strategy that focuses on SNS, mobile communications and online games. A number of third-party services, products, content and applications have been, and will continue to be, provided on or through our platforms through commercial co-operation agreements we entered into with third parties. It is also possible that third parties may engage in illegal, obscene or incendiary conversations or activities that may be deemed unlawful under PRC laws and regulations on our platform. If any content on our platform is deemed illegal, obscene or incendiary, or if appropriate licences and third-party consents of such services, products, content and applications as required have not been obtained, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other theories and claims based on the nature and content of such objectionable information. Although such commercial agreements provide general contractual provisions to limit or exclude our legal liabilities, we cannot assure you that we may not incur any liability caused by providing these third-party services, products, content or applications on our platforms if they are found to be in breach of the relevant rules and regulations in the PRC or any intellectual property rights, especially in light of the fact that the current PRC laws remain uncertain regarding our liability in connection with any third-party content and applications. The Regulations on Network Information Protection require Internet operators to supervise and manage these third-party services with respect to collection and use of user information so as to ensure information security and privacy. However, the allocation of liabilities between Internet operators and such third-party service providers is subject to legal uncertainty. Any regulatory actions or liability incurred by these third parties may disrupt our business and cause damage to our reputation.

We have been and may continue to be exposed to liability for copyright or trademark infringement and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through or published or posted on our platform. Defense of any such actions could be costly and involve significant time and attention of our management and other resources. In addition, if we are found to have not adequately monitored the content on our platform, PRC authorities may impose legal and administrative sanctions on us, including, in serious cases, suspending or revoking the licences necessary to operate our platform, which could have a material and adverse effect on our business, future results of operations and prospects.

We may face additional risks as we expand our business to new international markets.

From time to time we evaluate opportunities to expand our business, services and product offerings to markets outside the PRC. Expanding our business, services and product offerings into new overseas markets may expose us to risks that are additional to or different from those that we currently face, including:

- difficulties in identifying and maintaining good relationships with business counterparties or partners;
- uncertainties in developing products and services catering to overseas markets and in renewing the licence agreements with licencees upon their expiration;
- our ability to maintain our brand name and the reputation of our products and services in situations where our products and services are operated by licencees or partners in the overseas markets pursuant to their own standards;

- difficulties in staffing and managing foreign operations;
- difficulties and costs associated with protecting and enforcing our intellectual property rights overseas;
- difficulties and costs relating to compliance with the different commercial and legal requirements of the overseas markets, such as licensing and certification requirements, import regulatory procedures, taxes and other restrictions and expenses;
- requirements under different local regulatory systems, including potential service interruptions of our online services due to national security laws or policies in the international markets in which we operate;
- exposure to claims and litigations in markets where the laws and overall environment are unfamiliar to us;
- competition from established local competitors;
- laws and business practices that favour local competitors or prohibit or limit foreign ownership of certain businesses;
- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic fund transfer systems;
- potentially adverse tax consequences, including local taxation of our fees or transactions on our websites;
- fluctuations in currency exchange rates;
- our ability to repatriate funds from abroad; and
- interruptions in cross-border Internet connections or other system or network failures.

Our inability to expand our business internationally or any risks associated with conducting business in new overseas markets may have a material and adverse effect on our business, future results of operations and prospects.

Unauthorised use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights may adversely affect our business, future results of operations and prospects.

We regard our intellectual property rights, including our patent, trademark and content copyrights, as critical to our success. We seek to protect our intellectual property rights by relying on a combination of patent, copyright and trademark protection and contract laws. Despite our precautions, it may be possible for third parties to use such intellectual property without authorisation. The validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving in the PRC and protection and enforcement of our intellectual property rights may not be as effective as in other countries with established legal regimes. Moreover, policing and enforcing against unauthorised use of proprietary technologies is difficult and expensive. Any unauthorised use of our intellectual property could have a material and adverse impact on our business and results of operations. From time to time, we have, and may have to resort to, litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of resources.

We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.

As an Internet content distributor and publisher and an eCommerce platform provider, we may face liability for defamation, negligence, copyright, misappropriation, patent or trademark infringement or other intellectual property rights violations of third parties. See “*Business—Legal Proceedings*”. We may receive notices of claims of infringement of third parties’ proprietary rights or claims for indemnification resulting from infringement claims arising from our use of technology, content offered on our Internet portals, internally developed or licenced online games or merchandise and services sold on our eCommerce platforms. We could also be subject to claims based upon content that is accessible on our websites or through our services, such as content and materials posted by users on message boards, online communities, voting systems, email or chat rooms. On 17 December 2012, the Supreme People’s Court of the PRC promulgated a judicial interpretation, namely, the Provisions of the Supreme People’s Court of the PRC on Several Issues concerning the Application of Law in Hearing Civil Dispute Cases Involving Infringement of the Right of Dissemination on Information Networks (最高人民法院關於審理侵害資訊網絡傳播權民事糾紛案件適用法律若干問題的規定), which regulates dissemination of infringing materials through the Internet. This judicial interpretation, like certain court rulings and certain other judicial interpretations, provide that the courts will place the burden on Internet service providers to remove not only links or contents that have been specifically mentioned in the notices of infringement from right holders, but also links or contents Internet service providers “should have known” to contain infringing content. The interpretation further provides that where an Internet service provider has directly obtained economic benefits from any contents made available by an Internet user, it has a higher duty of care with respect to Internet users’ infringement of third-party copyrights. This interpretation could subject us and other Internet service providers to significant administrative burdens and litigation risks.

With respect to games and applications developed by third parties, we have procedures designed to reduce the likelihood of infringement. However, such procedures might not be effective in preventing third-party games and applications from infringing other parties’ rights.

We conduct our business operations primarily in China. There might be claims that we are subject to external copyright laws, including the legal standards for determining indirect liability for copyright infringement. We cannot assure you that we will not be subject to copyright infringement lawsuits or other proceedings in the U.S. or elsewhere in the future.

Intellectual property claims and litigation are expensive and time-consuming to investigate and defend, and may divert resources and management attention from the operation of our business. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our websites to reduce the risk of future liability, could also have a material and adverse effect on our business, future results of operations and prospects.

Online communications among our users may lead to adverse moral, emotional or physical consequences, which may damage our reputation, lead to litigation or government investigation and have a material and adverse effect on our business, future results of operations and prospects.

Our users engage in highly personalised exchanges over our platforms. Users who have met online through our services may become involved in emotionally charged situations and could suffer adverse moral, emotional or physical consequences. Such occurrences could be highly publicised and have a significant negative impact on our reputation. Users who have suffered such adverse consequences may bring litigation against us to claim compensation in such events. Government authorities may also require us to discontinue or restrict those services that have led, or may lead, to such events. As a result, our business, future results of operations and prospects could be materially and adversely affected.

As our patents may expire and may not be extended, our patent applications may not be granted and our patent rights may be contested, circumvented, invalidated or limited in scope, our patent rights may not protect us effectively. In particular, we may not be able to prevent others from developing or exploiting competing technologies. As a result, there could be material and adverse effects on our business, future results of operations and prospects.

In the PRC, the valid period of utility model patent right or design patent right is ten years, and the valid period of invention patent right is twenty years. None of such patent rights is extendable. Currently, we have patent applications pending in the PRC, but we cannot assure you that we will be granted patents pursuant to our pending applications. Even if our patent applications succeed and we are issued patents in accordance with them, it is still uncertain whether these patents will be contested, circumvented or invalidated in the future. The rights granted under any issued patents may not provide us with proprietary protection or competitive advantages. Further, the claims under any patents that issue from our patent applications may not be broad enough to prevent others from developing technologies that are similar or that achieve results similar to ours. It is also possible that the intellectual property rights of others will bar us from licensing and from exploiting any patents that issue from our pending applications. Numerous U.S. and foreign issued patents and pending patent applications owned by others exist in the fields in which we have developed and are developing our technology. These patents and patent applications might have priority over our patent applications and could subject our patent applications to invalidation. Finally, in addition to those who may claim priority, any of our existing or pending patents may also be challenged by others on the basis that they are otherwise invalid or unenforceable.

Our quarterly revenue and operating results may be subject to significant fluctuations.

We may experience significant fluctuations in our quarterly operating results due to a variety of factors, many of which are beyond our control. Significant fluctuations in our quarterly operating results could be caused by factors including seasonality, the extent of investment or discretionary spending regulatory changes or the macroeconomic environment. Any of these factors or other factors could cause our results of operations to fluctuate from quarter to quarter. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenue and costs and expenses as a percentage of our revenue may significantly differ from our historical or projected rates. Our results of operations may be below our expectations or the expectations of public market analysts and investors in one or more future quarters.

We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services.

Our success depends on the continuous effort and services of our current executive team and other key personnel and we rely on their expertise in business operations, including the development of new value-added services and products and maintenance of our relationships with other strategic partners. If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to easily replace them and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business. Our present and future success will continue to depend on our ability to attract and retain highly skilled technical, managerial, editorial, marketing and customer service personnel. There is no assurance that we may be able to successfully attract, assimilate or retain the personnel we need to succeed. As competition for talent in the Internet and telecommunications industries intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we are unable to attract additional highly skilled personnel or retain or motivate our existing personnel, we may not be able to grow effectively.

Legal proceedings or allegations of impropriety against us or our key personnel could have a material and adverse impact on our reputation, results of operations and financial condition.

From time to time, we have been, and may be in the future, involved in lawsuits or subject to allegations brought by our competitors, individuals or other entities against us or our key personnel,

including claims of unfair, unethical or otherwise inappropriate business practices. See “*Business—Legal Proceedings*”. Any such lawsuit or allegation, with or without merit, or any perceived unfair, unethical or inappropriate business practice by us could generate negative publicity about us, harm our reputation and divert resources and management attention from the operation of our business. We cannot assure you that we will not be involved in lawsuits or subject to allegations of similar nature in the future. In addition, we could incur substantial costs, divert the attention of our management in dealing with these claims, and suffer reputational damage, even if we are successful in our defense or counterclaims, which could have a material and adverse effect on our business, future results of operations and prospects.

Undetected programming errors or defects in our games and the proliferation of cheating programmes could harm our reputation and increase user dissatisfaction, which could materially and adversely affect our business, future results of operations and prospects.

Our games may contain undetected programming errors or other defects. In addition, parties unrelated to us may independently develop online cheating programmes that enable users to acquire superior features for our games that they would not have otherwise. Furthermore, certain cheating software programmes created independently by parties unrelated to us could allow users to eliminate superior features for our games that have been acquired by other users. The occurrence of undetected errors or defects in our games, and our failure to discover and disable cheating programmes affecting the fairness of the game environment for our games, could disrupt our operations, damage our reputation and detract from the game experience of our users. As a result, such errors, defects and cheating programmes could materially and adversely affect our business, future results of operations and prospects.

Unexpected network interruptions caused by system failures, security breaches, malware or computer or mobile device system viruses may disrupt our business operations, harm our reputation, and may require us to expend significant capital and other resources to protect our websites.

We may experience unexpected system interruptions and delays (including those caused by natural disasters such as earthquakes and floods) or security breaches, which may expose us or our users to a risk of loss or misuse of user information, prevent us from efficiently providing services or efficiently fulfilling orders, or cause significant harm to our reputation and our ability to attract and maintain users and advertisers. We maintain a distributed server network architecture hosting servers across the PRC. We have limited backup systems and have experienced system failures and electrical outages from time to time in the past, which have disrupted our operations. Although we have a certain number of disaster recovery plans in place in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, terrorist acts and similar events and will continue to develop additional plans, our existing backup systems and disaster recovery plans may not be effective for such events. If any of the foregoing occurs, we may experience system failures and electrical outages, which could have a material and adverse effect on our business, future results of operations and prospects.

In 2010, we experienced a significant security attack by a program, which we believe to be malware, called “Kou Kou Bodyguard”, that caused material security risks to our users. The risks subsided after government authorities ordered the creator of the malware to withdraw the program. Nevertheless, the security attack caused substantial disruption to our users and business and the publicity surrounding the attack temporarily affected our user relations and reputation. We may be required to expend significant capital and other resources to protect our websites against the threat of such computer viruses and hackers and to alleviate any problems caused by them and there is no assurance that these measures will be adequate and prevent potential future attacks. In addition, any security breach caused by hacking, which involves efforts to gain unauthorised access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material and adverse effect on our business, future results of operations and prospects.

Our users may use our products or services for critical transactions and communications, especially business communications. As a result, any system failures could result in damages to such users' businesses. These users may seek significant compensation from us for their losses. We could incur substantial costs and divert the attention of our management in defending ourselves against these claims even if we are successful in such defense.

Failure of information security could subject us to penalties, damage our reputation and brand, and harm our business, future results of operations and prospects.

The Internet and mobile industries are facing significant challenges regarding information security and privacy, including the storage, transmission and sharing of confidential information. We transmit and store over our systems confidential and private information of our users, customers, distributors and partners, such as personal information, including names, user IDs and passwords, and payment or transaction related information. We are required by PRC law to ensure the confidentiality, integrity, availability and authenticity of the information of our users, customers, distributors and partners, which is also essential to maintain their confidence in our online products and services.

We have adopted strict information security policies and deployed advanced measures to implement the policies, including, among others, encryption technologies. However, advances in technology, increased level of sophistication and diversity of our products and services, increased level of expertise of hackers, new discoveries in the field of cryptography or others could still result in a compromise or breach of the measures that we use. Because of our leading market position in the Internet and mobile industries in China, we believe we are a particularly attractive target for security breaches and hacking attacks. We may continue to experience such attacks. In August 2011, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues on the Application of Law in the Handling of Criminal Cases about Endangering the Security of Computer Information Systems (最高人民法院、最高人民檢察院關於辦理危害電腦資訊系統安全刑事案件應用法律若干問題的解釋) regarding hacking and other Internet crimes. In December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, (the "**Network Information Protection Decision**") (全國人民代表大會常務委員會關於加強網路資訊保護的決定). To enforce the Network Information Protection Decision and require Internet service providers to take measures to ensure confidentiality of information of users, the Regulations on Network Information Protection became effective in September 2013. In July 2013, MIIT issued the Action Plan Notice of the Precaution and Administration over the Illegal Hacker Industrial Chain (防範治理駭客地下產業鏈專項行動方案的通知) to specifically crack down on malicious hacking. However, the effect of these new regulations on curbing hacking and other illegal online activities still remains to be seen. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. If we are unable to protect our systems, hence the information stored in our systems, from unauthorized access, use, disclosure, disruption, modification or destruction, such problems or security breaches could cause loss or give rise to our liabilities to the owners of confidential information, such as our users, customers, distributors and partners, subject us to penalties imposed by administrative authorities, and disrupt our operations. Any negative publicity on the safety or privacy protection mechanism and policy of our websites, mobile or platform services could also have a material and adverse effect on reputation and brand and harm our business, future results of operations and prospects.

We could be liable for fraudulent or unlawful activities of sellers and users.

Our online payments platforms are susceptible to potentially illegal or improper use, including fraudulent sales of goods or services, illicit sales of controlled substances, restricted or unlawful items, piracy of software, movies, music and other copyrighted or trademarked goods, money

laundering, terrorist financing, bank fraud, child pornography, drug trafficking, online securities fraud, identity theft and encouraging, promoting, facilitating or instructing others to engage in illegal activities. Although we have implemented policies to restrict these activities on our platforms, we may not be able to prevent all such misuse by our users. Excessive misuse of our services by users could result in the fines, the suspension of our services or reputational harm. We may be subject to claims from customers that merchants have not performed or that their goods or services do not match the merchant's description, whether those arise from merchant fraud or from an unintentional failure to perform by the merchant. While we are indemnified by our partners, we may not be able to recover in full if our partners are unwilling or unable to pay. We may also be subject to claims from users that they did not authorise purchases. Negative publicity and customer sentiment generated as a result of fraudulent or deceptive conduct through our online payments platforms and transactions could damage our reputation, reduce our ability to attract new users or retain existing users and adversely impact our brands. Any costs incurred as a result of potential liability relating to the alleged or actual sale of unlawful goods or the unlawful sale of goods could harm our business. In addition, governmental agencies could require us to modify our business practices and discontinue or restrict our services.

Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and services.

From time to time, concerns have been expressed about whether our products, services, or processes compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the PRC, U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices and could have a material and adverse effect on our business, future results of operations and prospects.

Our payments business is subject to a number of laws and regulations, including those governing banking, cross-border and domestic money transmission, anti-money laundering, foreign exchange and payment services.

Our Weixin payments business is subject to various laws and regulations in the PRC, and any future expansion of our payments business to our WeChat platform would be subject to various laws and regulations in other jurisdictions where we operate. These laws include those governing banking, cross-border and domestic money transmission, anti-money laundering, foreign exchange and payment services, such as payment processing and settlement services. The legal and regulatory requirements that apply to our payments business vary in the markets where we operate and have increased over time as the geographical scope and complexity of our business and products have expanded. While our payments business has a compliance program focused on compliance with applicable laws and regulations and has significantly increased the resources of that program in the last several years, there can be no assurance that we will not be subject to fines or other enforcement actions in one or more jurisdictions or be required to make changes to our business practices or compliance programs to comply in the future. Any new laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to our payments business could subject us to additional laws and regulations, additional licensure requirements and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines, enforcement actions, changes in compliance requirements or limits on our ability to grow our business, could have a material and adverse effect on our business, future results of operations and prospects.

Our payments business is subject to anti-money laundering and counter-terrorist financing laws and regulations.

Our Weixin payments business is, and any future expansion of our payments business to our WeChat platform would be, subject to various anti-money laundering and counter-terrorist financing laws and regulations that prohibit, among other things, its involvement in transferring the proceeds of criminal activities. We are focused on compliance with these laws and regulations and have programs designed to comply with new and existing anti-money laundering and counter-terrorist financing legal and regulatory requirements. However, any errors, failures or delays in complying with anti-money laundering and counter-terrorist financing laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets or other enforcement actions. Any new anti-money laundering and counter-terrorist financing laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to our payments business could subject us to additional laws and regulations, additional licensure requirements and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines or enforcement actions, changes in our compliance requirements or limitations on our ability to grow our business, could have a material and adverse effect on our business, future results of operations and prospects.

Our payments business is subject to consumer protection laws and regulations.

Our Weixin payments business is subject to consumer protection laws and regulations in the PRC, and any future expansion of our payments business to our WeChat platform would be subject to various consumer protection laws and regulations in other jurisdictions where we operate. We are focused on compliance with these laws and regulations and have programs designed to comply with new and existing consumer protection requirements. However, any errors, failures or delays in complying with such consumer protection laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets or other enforcement actions. Any new consumer protection laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to our payments business could subject us to additional laws and regulations, additional licensure requirements and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines or enforcement actions, changes in our compliance requirements or limitations on our ability to grow our business, could have a material and adverse effect on our business, future results of operations and prospects.

We may not be able to maintain existing or establish new arrangements with device manufacturers.

We derive value and benefits from co-operative arrangements with device manufacturers, including mobile phone manufacturers, and we work with these device manufacturers to install our Internet and mobile applications onto their devices for use by purchasers of their devices. Although we currently have contracts with a number of domestic and international device manufacturers operating in the PRC, including mobile phone manufacturers, an interruption in our relationships with such manufacturers could have an adverse impact on our business, including our profitability and ability to deliver value-added services and products to our users.

We may need additional capital but may not be able to obtain it.

We may require additional cash resources due to future growth and developments of our business, including any investments or acquisitions we may decide to pursue, or for other business changes. If the cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain credit facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations, cash flows, share price performance, the liquidity of international capital and lending markets, PRC

governmental regulations over foreign investment and the Internet industry in the PRC. In addition, incurring indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, if at all.

If we are unable to raise additional funds on terms favourable to us, or at all, this could have a material and adverse effect on our business, financial condition and results of operations. For example, we may not be able to carry out parts of our growth strategy or invest in technology infrastructures necessary to maintain our growth and competitiveness.

We have limited business insurance coverage.

Insurance companies in the PRC offer limited business insurance products. As a result, although we have insurance for property damage, we do not have any product liability, business liability or disruption insurance coverage for our operations in the PRC, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business and reputation. Any business disruption, litigation or natural disaster could expose us to substantial costs and diversion of resources.

RISKS RELATING TO OUR INDUSTRY

The laws and regulations governing the Internet and telecommunications and other related industries in the PRC are developing and subject to future changes. If we fail to adhere to applicable regulations, or if we fail to obtain or maintain all applicable permits and approvals, our business, future results of operations and prospects could be materially and adversely affected

The Internet and telecommunications and other related industries in the PRC are highly regulated by the PRC government. See “*General Regulation on Internet and Telecommunications Industries*”. Various regulatory authorities of the PRC government, including, but not limited to State Council, MIIT, SAIC, MOC, SAPPRFT (effective on 22 March 2013, GAPP merged with the State Administration of Radio, Film and Television and is now known as the State General Administration of Press, Publication, Radio, Film and Television, “SAPPRFT”, which now oversees China’s press, publication, radio, film and TV sectors), MOFCOM and MPS, are empowered to promulgate and implement regulations governing various aspects of the Internet and telecommunications and other related industries and we are thus required to obtain applicable licences, permits and approvals from a number of these regulatory authorities in order to conduct our business. Although we have obtained the licences essential to operating our business, these licences are subject to periodical government review and we cannot assure you that we can successfully renew these licences.

As the Internet and telecommunications and other related industries mature, the PRC government authorities are likely to continue to issue new regulations governing these industries and hence require new and additional licences, permits and approvals. As we further develop and expand our product and services offerings and functions, including new services and products, we and our users may in the future become subject to additional or new regulations (such as stricter regulations relating to content publication, user identity, privacy, consumer and data protection and the provision of online payment services), and we may also need to obtain additional qualifications, permits, approvals or licences. There is no assurance that we can obtain and renew those licences, permits and approvals in a timely or cost-effective manner. Failure to obtain them could materially and adversely affect our business, future results of operations and prospects.

The laws and regulations governing online/mobile financing products in the PRC are under-developed and subject to future changes. If we fail to adhere to applicable regulations, or if we fail to obtain or maintain all applicable permits and approvals, our business and results of the current mobile financing operations would be materially and adversely affected.

With the development of online/mobile financing industries, online/mobile financing products are likely to become subject to more laws and regulations governing these industries, and hence require new and additional licences, permits and approvals, by the PRC government authorities. As we provide expanded mobile financing products via the Weixin platform, we and our users may in the future become subject to additional or new regulations and restrictions, and we may also need to obtain additional qualifications, permits, approvals or licences. There is no assurance that we can obtain and renew those licences, permits and approvals in a timely or cost-effective manner. Failure to obtain them could materially and adversely affect our business, future results of operations and prospects.

The PRC government has promulgated a series of rules, regulations and policies that may have negative impact on the online game industry, and we cannot assure you that the PRC government will not promulgate similar rules, regulations or policies in the future.

The online game industry is highly regulated in the PRC. The PRC government has adopted a series of rules, regulations and policies to monitor and control the online game industry in response to, among other things, perceived addiction to online games and its perceived negative social effects, particularly for minors. For example, PRC governmental authorities issued a notice in April 2007 requiring all PRC online game operators to adopt an “anti-fatigue system” in an effort to curb addiction to online games by minors, under which game operators are required to reduce the value of game benefits for minor game players as their continuous playing time reaches certain thresholds. Online game players in the PRC are also required to register their identity numbers before they can play so game operators are able to identify which game players are minors.

On 1 July 2011, eight PRC government agencies, including GAPP, the Ministry of Education and MIIT, promulgated the Circular on Implementing the Verification of Real-name Registration for the Anti-Fatigue System of Online Games (the “**Real-name Registration Circular**”), to strengthen the implementation of the anti-fatigue system and the real-name registration system. The Real-name Registration Circular indicates that the National Citizen Identity Information Center of the Ministry of Public Security shall verify identity information of game players submitted by online game operators. In addition, this circular imposes more stringent penalties on online game operators failing to implement the anti-fatigue and real-name registration systems properly and effectively, including suspension or termination of online game services.

In addition, PRC governmental agencies have issued a series of rules and regulations limiting the use of virtual currencies in online games, which may result in higher costs for the operation of our online games and lowers sales of virtual items in our online games.

We cannot assure you that the PRC government will not promulgate similar rules, regulations or policies in the future, particularly during periods when public opinion does not favor online games. Such rules, regulations and policies could significantly reduce our revenue and materially and adversely affect our business, future results of operations and prospects.

Stricter government supervision of online game content may adversely affect our business, future results of operations and prospects.

Under the Regulations on the Main Functions, Internal Organisation and Staffing of GAPP (國家新聞出版總署(國家版權局)主要職責內設機構和人員編制規定) issued by the General Office of the State Counsel on 11 July 2008 and the related interpretation circulars, GAPP is authorised to approve online

games before their launch on the Internet, while the MOC is authorised to administer and regulate the overall online game industry. Once an online game is launched on the Internet, it will be regulated only by the MOC, and if an online game is launched on the Internet without the prior GAPP approval, the MOC is the authority responsible for investigating the matter.

On 1 July 2009, GAPP issued the Notice on Strengthening the Approval and Administration of Imported Online Games (the “**GAPP Notice**”), which requires game operators to obtain the approval of GAPP to import online games from offshore copyright owners. Under the GAPP Notice, all online game operators must obtain an Internet publishing licence to provide online game services. In addition, approvals from GAPP are required when game operators release new versions or expansion packs, or make any changes to the originally approved online game. In the event of any failure to meet the above-mentioned requirements, an operator may face heavy penalties, such as being ordered to stop operating online games, or having its business licence revoked. Our licenced online game business may be adversely affected by the GAPP notice. The launch of expansion packs and licenced games might be delayed because of the extra approval required. Such delay in releasing expansion packs or imported games may result in higher costs for our online game operation and have an adverse effect on our game revenue.

On 3 June 2010, MOC issued the Interim Measures for Online Games Administration (the “**Online Game Measures**”) (網絡遊戲管理暫行辦法), aiming to further strengthen MOC’s supervision of the online game industry. Pursuant to the Online Game Measures, a company wishing to engage in operation of online games (including mobile games operated through wireless telecommunication networks), issuance of virtual currency and/or provision of virtual currency transaction services must obtain an Internet Culture Business Licence from the provincial counterpart of MOC. The Online Game Measures provide that all domestic online games must be filed with MOC, while all online games licenced from overseas are subject to a content review prior to their launch. If a substantial change (for example, any significant modification to a game’s storyline, language, tasks, or trading system) is made to an existing imported or domestic online game, it will be subject to a new content review. On 17 February 2011, MOC issued the Interim Regulations on Administration of Internet Culture (the “**Internet Culture Regulations**”) (互聯網文化管理暫行規定), as further amended on 18 March 2011 and effective 1 April 2011. According to the Internet Culture Regulations, any for-profit operators of “Internet cultural products” (defined as certain online games) are subject to approval from MOC or its provincial counterpart. The Online Game Measures place restrictions on the content of online games, with MOC responsible for reviewing such content. With respect to online games developed in the PRC, operators are required to complete filing procedures with MOC, at least at the provincial level, within thirty days after online games are made available on the Internet. Any imported Internet cultural products are subject to a special approval from MOC.

Our online game business may be adversely affected by the Online Game Measures. The Online Game Measures do not set forth any specific procedure for the required filing and content review process for online games and therefore may cause delay when we try to file or apply for content review with MOC. In addition, for our imported licenced games, the requirement for prior approval of any substantial change may cause delay in releasing expansion packs, which may result in higher costs of our online game operation and have an adverse effect on our revenues. If we cannot comply with any of the stipulations of any PRC government agencies regarding online game content, we may be subject to various penalties and our online game business may be adversely affected.

Currently, there is no law or regulation specifically governing virtual property rights and therefore it is not clear what liabilities, if any, online game operators may have for virtual property.

In the course of playing online games, users may acquire and accumulate some virtual property, such as virtual avatars, game tokens, special equipment and other accessories. Such virtual property may be important to online game players and have monetary value and in some cases may be traded among players for actual money. In practice, virtual property can be lost for various reasons, often through unauthorised use of user accounts by other users and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. Currently, there is no PRC law or regulation

specifically governing virtual property rights. As a result, there is uncertainty as to who is the legal owner of virtual property, whether and how the ownership of virtual property is protected by law, and whether an online game operator would have any liability to game players or other interested parties (whether in contract, tort or otherwise) for loss of such virtual property. In case of a loss of virtual property, we may be sued by our game players and held liable for damages, which may negatively affect our reputation and business and financial condition.

Based on recent PRC court judgements, the courts have typically held online game operators liable for losses of virtual property by game players, and in some cases have allowed online game operators to return the lost virtual property to game players in lieu of paying damages. If we are sued by our game players or users and held liable for damages, our business, future results of operations and prospects may be negatively affected.

Compliance with the laws or regulations governing virtual currency may result in us having to obtain additional approvals or licences or change our current business model.

The issuance and use of “virtual currency” in the PRC has been regulated since 2007 in response to the growth of the online game industry in the PRC. In January 2007, the MPS, MOC, MIIT and GAPP jointly issued a circular regarding online gambling which has implications for the use of virtual currency. To curtail online games that involve online gambling, as well as address concerns that virtual currency could be used for money laundering or illicit trade, the circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to winning or losing of games; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. On 4 June 2009, MOC and MOFCOM jointly issued a notice regarding strengthening the administration of online game virtual currency (“**Virtual Currency Notice**”) (關於加強網絡遊戲虛擬貨幣管理工作的通知). On 20 July 2009, MOC promulgated the Filing Guidelines on Online Game Virtual Currency Issuing Enterprises and Online Game Virtual Currency Trading Enterprises (網絡遊戲虛擬貨幣發行企業”和網絡遊戲虛擬貨幣交易企業”申報指南), which specifically define “issuing enterprise” and “trading enterprise” and stipulate that a single enterprise may not operate both types of business. MOC issued the Interim Measures for Online Game Administration (網絡遊戲管理暫行辦法), which provides, among other things, that virtual currency issued by online game operators may be only used to exchange its own online game products and services and may not be used to pay for the products and services of other entities.

We issue game tokens to game players and our users use them to purchase various virtual items or time units to be used in our online games. We believe we only offer game tokens for in-game consumption, which are not transferrable among our user accounts and are not convertible into real currency. In addition, we do not offer secondary trading services of the game tokens. Nonetheless, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours and that we may not be subject to certain penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material and adverse effect on our business and results of operations. In addition, the Virtual Currency Notice prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. The notice also prohibits game operators from issuing currency to game players through means other than purchases with legal currency. It is unclear whether these restrictions would apply to certain aspects of our online games. Although we believe that we do not engage in any of the above-mentioned prohibited activities, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours and deem such feature as prohibited by the Virtual Currency Notice, thereby subjecting us to penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could materially and adversely affect our business, future results of operations and prospects.

Regulation and censorship of information disseminated over the Internet in the PRC may adversely affect our business and subject us to liability for content displayed on or linked to our websites.

The PRC government has adopted regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying content over the Internet that, among other things, violates PRC laws and regulations, impairs the national dignity of the PRC, or is reactionary, obscene, superstitious, fraudulent or defamatory. Further, MIIT or its local branches may shut down the website of any local Internet service provider that violates such content restrictions, suspend its operations or revoke its ICP licence. If the Chinese government takes any action to limit or prohibit the distribution of information through our network or any of our platforms, or to limit or regulate any current or future content or services available to users on our network, our business could be adversely impacted. Failure to comply with the applicable requirements may result in the revocation of licences to provide Internet content and other licences, the closure of the concerned websites and may subject the website operator to potential liabilities for such censored information displayed on or linked to the website.

We are also subject to potential liability for content on our websites that is deemed inappropriate by the PRC government and for any unlawful actions of our users or website visitors. When Internet and mobile service providers find that any obscene, superstitious, fraudulent or defamatory information has been transmitted on their platforms, they are required to terminate the transmission of such information or delete such information immediately, keep records, and report to relevant authorities. Mobile network operators like China Mobile, China Telecom and China Unicom also have their own policies prohibiting or restricting the distribution of inappropriate content. On 15 December 2009, the MIIT issued the Notice Regarding Plan for Further Regulating Obscene Materials on Mobile Phones (“**Circular 672**”) (關於進一步深入整治手機淫穢色情專項行動工作方案的**通知**). Under Circular 672, mobile network operators are required to examine their business, promotional channels, as well as the business of their partners, and must immediately terminate such business if any obscene material is involved. Mobile service providers involved in distributing or publishing such obscene materials on mobile handsets are subject to immediate suspension or termination of co-operation with mobile network operators, and violations are reported to relevant authorities. Mobile network operators and mobile service providers must examine all websites accessed through mobile handsets and conduct full daily inspection of such websites. If any obscene material is found, access and transmission must cease and be reported to authorities. According to the Online Game Measures, companies that plan to engage in the operation of online games, issuance of virtual currency and provision of virtual currency transaction services shall obtain a licence from the provincial counterpart of the MOC. Online and mobile game operators are required to establish a self-censorship mechanism and ensure the lawfulness of the content of their games and corporate operations. On 12 August 2013, the MOC issued the Administrative Rules on Content Review by Internet Culture Operating Entities (網絡文化經營單位內容自審管理辦法), which became effective on 1 December 2013, pursuant to which companies operating Internet culture businesses are required to employ personnel certified to conduct content review on their products they are released to the public and retain records of the content review for at least two years.

Although we attempt to monitor the content in our online communities, we are not able to control or restrict the content of other Internet content providers linked to or accessible through our websites, or content generated or placed on our other online communities by our users. If third-party websites linked to or accessible through our websites operate unlawful activities such as online gambling on their websites, PRC regulatory authorities may require us to report such unlawful activities to relevant authorities and to remove the links to such websites, or they may suspend or shut down the operation of such websites. To the extent that the PRC regulatory authorities find any content displayed on our websites objectionable, they may require us to limit or eliminate the dissemination of such information on our websites. For example, on 31 March 2012, leading microblog operators in the PRC, including Tencent Microblog, were required by the PRC government to disable their comment features for three days and remove comments related to certain rumors that were posted by users on their microblog websites. If in the future the PRC government authorities decide to restrict the dissemination of

information via microblog services or online postings in general, they may temporarily block access to certain websites for a period of time, require us to discontinue or restrict certain services and websites or levy penalties or fines for violations of relevant rules and regulations arising from content displayed on or linked to our websites. We may also be required to delete content that violates the PRC laws and report content that we suspect to violate PRC law. Any of these actions may adversely affect user confidence in our services and lead to reduced user traffic, which in turn may materially and adversely affect our reputation, business and results of operations.

We also need to monitor the advertising content shown on our websites to ensure that such content is true, accurate and in full compliance with applicable PRC laws and regulations. In addition, certain advertisements need to go through a special government review for approval before website posting. Failure to implement those monitoring functions and comply with the relevant laws and regulations may subject us to penalties, including fines, confiscation of any advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting any misleading information. In circumstances involving serious breaches, PRC governmental authorities may force us to terminate our advertising operations or revoke our licences.

The online advertising market is subject to many uncertainties, which could cause our advertising revenue to be materially and adversely affected.

Online advertising revenue represented 8% of our total revenue for the year ended 31 December 2012 and 8% for the year ended 31 December 2013. The growth of our advertising revenue relies on increased revenue from the sale of advertising inventory on our platforms, which could be affected by the following factors:

- growth of the online advertising market;
- acceptance of online advertising as an effective marketing channel;
- our development of tailored advertising solutions to meet advertising clients' needs;
- changes in government rules and regulations impacting the advertising industry;
- alternative methods and strategies available to advertising clients to promote their brand; and
- development and acceptance of an independent and reliable standard for measuring the effectiveness of online advertising.

We also may be unable to respond adequately to changing trends in online advertising or advertiser demands or preferences or keep up with technological innovations and improvements in the measurement of user traffic and online advertising. If the online advertising market size does not increase from current levels or we are unable to capture and retain a sufficient share of that market, our ability to maintain or increase our current level of online advertising revenue could be materially and adversely affected.

Privacy concerns or inaccurate information about our users may prevent us from selling demographically targeted advertising, which could make our advertising inventory less attractive to advertisers.

Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and results of operations. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is shared with advertisers, may cause the advertising inventory generated by the QQ software client, our websites and other services to be less attractive to advertisers. In addition, we have limited ability to validate or confirm the accuracy of

information provided during the user registration process. If the information that we collect for targeted advertising is materially inaccurate or false, this may also cause the advertising inventory generated by the QQ software client, our websites and other services to become less attractive to advertisers.

A notice issued by the PRC Ministry of Culture in August 2009 may affect our online music services.

In August 2009, the MOC promulgated the Notice on Strengthening and Improving the Content Review of Online Music, which provides, among others that only “Internet culture operating entities” approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. In addition, it is required that imported music products must pass prior content review by the Ministry of Culture before they are put on Internet and domestic music products must be filed with the Ministry of Culture within 30 days after the commencement date of the online operation of the domestic music products. We hold an Internet culture business permit granted by the Ministry of Culture, which allows us to engage in “Internet culture activities” as defined in the relevant regulations promulgated by the Ministry of Culture. See “*General Regulation on Internet and Telecommunications Industries*”. We provide music for users to stream and download on our platform and we have obtained licences from many content providers. If we are found by the Ministry of Culture to have failed to fully comply with the requirements of this notice, we could be subject to administrative penalties, including an order to stop providing the music products that have not been reviewed by or filed with the Ministry of Culture, fines, or confiscation of income derived from activities deemed in violation of the notice. Any of these occurrences could adversely affect our business, future results of operations and prospects.

RISKS RELATED TO OUR CORPORATE STRUCTURE

If the PRC government finds that the agreements that establish the structure for operating our services in the PRC do not comply with PRC governmental restrictions on foreign investment in value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

The PRC government regulates foreign investment in value-added telecommunications businesses and other related businesses heavily through strict licensing requirements and other laws and regulations, which also include limitations on foreign ownership in PRC companies that provide value-added telecommunications services. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any Internet content provider or any other value-added telecommunications service provider. In addition, foreign and foreign-invested enterprises are currently not able to apply for the required licences for operating online games in the PRC.

The Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (the “**MIIT Circular**”) (關於加強外商投資經營增值電信業務管理的通知), issued by the MIIT in July 2006, reiterated the regulations on foreign investment in telecommunications businesses, which requires foreign investors to set up foreign-invested enterprises and obtain a licence for value-added telecommunications services, to conduct any value-added telecommunications business in the PRC. Under the MIIT Circular, a domestic company that holds a licence is prohibited from leasing, transferring or selling the licence to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities to foreign investors that conduct value-added telecommunications business illegally in the PRC. The MIIT Circular also includes additional requirements and restrictions on a domestic company that holds a licence when it co-operates with a foreign investor. See “*General Regulation on Internet and Telecommunications Industries — General Regulations on Internet and Telecommunications Industries — Regulations on Foreign Investment in the Value-added Telecommunications Services*”. However, due to a lack of further interpretative materials from the regulator, it is unclear what impact the MIIT Circular will have on us or the other PRC Internet companies that have adopted the same or similar corporate and contractual structures as ours.

On 28 September 2009, GAPP, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, jointly issued a Notice on Further Strengthening the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (“**Circular 13**”). Circular 13 restates that foreign investors are not permitted to invest in online game-operating businesses in the PRC via wholly owned, equity joint venture or co-operative joint venture investments and expressly prohibits foreign investors from gaining control over or participating in domestic online game operators through indirect ways such as establishing other joint venture companies or entering into contractual or technical arrangements. However, Circular 13 does not provide any interpretation of the term “foreign investors” or make a distinction between foreign online game companies and companies under a corporate structure similar to ours. Thus, it is unclear whether the SAPPRT will deem our corporate structure and operations to be in violation of these provisions.

We and our WFOEs are considered foreign persons or foreign-invested enterprises under applicable PRC law. As a result, we operate our VAS, online and mobile games, online advertising and other Internet and wireless portals in the PRC through affiliated PRC entities that hold the necessary licences for our existing lines of businesses. We do not own any equity interest in these affiliated entities, which are considered to be our consolidated affiliated entities, but through a series of contractual arrangements between our WFOEs and these affiliated entities, we exercise control over these affiliated entities and obtain substantially all of the revenue in the form of technical support, consulting, licensing, revenue sharing and other fees. Since the contractual arrangements transfer the economic risks and benefits of the affiliated entities to us, we have concluded that it is appropriate to treat these affiliated entities as our consolidated affiliated entities and consolidate their financial results.

Based on the advice of our PRC legal counsel, the corporate structure of our WFOEs and the consolidated affiliated entities does not violate applicable existing PRC laws and regulations. However, our PRC legal counsel also advises that the relevant PRC regulators have substantial discretion to review, interpret and apply these laws and regulations from time to time, and it is possible that they may take a view that is different from our PRC legal counsel’s opinion. Therefore, we cannot assure you that our contractual arrangements will be deemed by the relevant government authorities to be in compliance with current PRC laws and regulations or that the relevant government authorities will not in the future reassess or reinterpret existing laws, regulations or policies in this area, or issue new laws, regulations or policies in this area, with the result that all or some of these arrangements would be deemed to be in violation of PRC law.

If the PRC government determines that we do not comply with applicable laws and regulations, including any laws and regulations that may be introduced, it could:

- levy fines and/or confiscate our income;
- revoke our WFOEs’ business licences and/or affiliated entities’ business and operating licences;
- require us to discontinue or restrict our operations;
- restrict our right to collect revenue;
- block our websites, online and mobile games, platforms or our other VAS services;
- require us to restructure our ownership and organisational structure and operations;
- impose additional requirements which we may not be able to comply; or
- take other regulatory or enforcement actions against us that could be harmful to our business.

Any of these or other similar actions could potentially disrupt substantially all of our business operations, divert our management attention and restrict us from conducting our business operations in the same way as we currently conduct it, which could materially and adversely affect our business, future results of operations and prospects.

The contractual arrangements with the consolidated affiliated entities and their shareholders, which relate to critical aspects of our operations, may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law.

We rely and expect to continue to rely on contractual arrangements with the consolidated affiliated entities and their shareholders in the PRC to operate our business and hold our licences, permits and certain other assets. These contractual arrangements may not be as effective as direct ownership in providing us control over the consolidated affiliated entities.

If (i) the consolidated affiliated entities and their shareholders fail to perform their obligations under these contractual arrangements, (ii) the consolidated affiliated entities and their shareholders terminate the contractual arrangements, (iii) the consolidated affiliated entities undergo corporate or other changes that affect their rights over assets held by them or (iv) these contractual arrangements are invalid or defective due to violation of PRC laws and regulations or other reasons, our business operations in the PRC would be materially and adversely affected. Further, if we fail to renew these contractual arrangements prior to their expiration, we would not be able to continue our business operations in the PRC.

A majority of these contractual arrangements are governed by PRC law. Accordingly, these contracts would be interpreted in accordance with PRC laws. The legal environment in the PRC is not as developed as in certain other jurisdictions and as a result, operations of the PRC legal system could limit the enforcement of these contractual arrangements. These contractual arrangements, which relate to critical aspects of our operations, will be invalid or unenforceable if they are found in violation of PRC laws and regulations. We may be unable to exert effective control over the consolidated affiliated entities and our business and financial condition could be materially and adversely affected.

The shareholders of our consolidated affiliated entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our consolidated affiliated entities are owned by their respective registered shareholders. Conflicts of interests between these individuals' roles as shareholders of our consolidated affiliated entities and their duties to the Company may arise. There is currently no specific and clear guidance under PRC laws that addresses the resolution of any conflict between PRC laws and Cayman Islands laws in respect of any conflict relating to corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated affiliated entities, we would have to rely on legal proceedings to resolve these disputes and/or enforce our contractual arrangements with our consolidated affiliated entities, which could result in disruption of our business, and there would be substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements we have entered into with our consolidated affiliated entities may be subject to scrutiny by the PRC tax authorities, and a finding that we or our consolidated affiliated entities owe additional taxes could reduce our net income and the value of your investment.

As required by applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between our WFOEs in the PRC on the one hand, and our consolidated affiliated entities on the other, do not represent an arm's-length transaction and adjust our consolidated affiliated entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our consolidated affiliated

entities, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment surcharges and other penalties on our consolidated affiliated entities for underpaid taxes. Our results of operations may be adversely affected if our consolidated affiliated entities' tax liabilities increase or if it is found to be subject to late payment surcharges or other penalties.

RISKS RELATING TO THE PRC

Interpretation of PRC laws and regulations involves significant uncertainties.

The PRC legal system is based on written statutes, while People's Courts of all levels carry out trials of similar cases with reference to guiding cases issued by the Supreme People's Court. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, competition and anti-trust, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of guiding cases, interpretation and enforcement of these laws and regulations involve significant uncertainties. As the PRC legal system develops, changes in such laws and regulations, or in their interpretation or enforcement, could have a material and adverse effect on our business operations. For example, we may be subject to competition and anti-trust investigations by the PRC government from time to time in the future. The outcomes of such investigations may prevent us from offering certain features, functions, services or products; requiring a change in our business practices or requiring development of non-infringing services, products or technologies, which could have a material and adverse effect on our business operations.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This has resulted in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC or the enforcement of judgements by a court in another jurisdiction.

PRC economic, political and social conditions as well as government policies could adversely affect our business, future results of operations and prospects.

The PRC economy differs from the economies of most developed countries in many respects, including government involvement, level of development, economic growth rate, control of foreign exchange, and allocation of resources. In recent years, the PRC economy has been transitioning from a planned economy to a more market-oriented economy and the PRC government has implemented measures emphasising economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. There can be no assurance that the PRC government will continue to pursue a policy of economic reform or that any such reforms will not have an adverse effect on the way we operate our business. Our business and financial condition could also be materially and adversely affected by any changes in PRC laws and regulations (or the interpretation thereof), as well as changes in the political, economic and social conditions of the PRC.

We may be adversely affected by a severe or prolonged downturn of the global or PRC economy.

The ongoing Eurozone debt crisis, the unprecedented downgrade of the U.S. credit rating and increasing concerns about a global recession, could materially and adversely affect the PRC economy and currently PRC-focused businesses like us. The effects of the Eurozone debt crisis could be even more significant if it leads to a partial or complete break-up of the European Monetary Union. There is also considerable uncertainty over the long term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of the world's leading economies. The grim economic outlook has negatively affected business and consumer confidence and contributed to significant market volatility. The stimulus plans and other measures implemented by the PRC government may not avert an economic downturn amid a severe and prolonged global economic

recession. Any prolonged slowdown in the PRC economy may lead to reduced Internet-related activities and consumer spending and have an adverse impact on companies with which we do business, which in turn could have a negative impact on our business, future results of operations and prospects.

If the PRC tax authorities determine that we are a “resident enterprise”, we may face unfavorable tax consequences.

Under the 2008 CIT Law, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises”. The Regulation on the Implementation of the Corporate Income Tax Law (“**Implementation Rules**”) (企業所得稅法實施條例) defines “de facto management body” as an organisation that exercises substantial and overall management and control over an enterprise’s manufacturing, or business operation, personnel, accounting and property. In addition, SAT has promulgated the Circular on Identification of China-controlled Overseas-registered Enterprises as Resident Enterprises on the Basis of Actual Management Organisation (“**Circular 82**”) (Guo Shui Fa 2009 No. 82) (國家稅務總局關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), which further provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether: (i) the premises where the senior management and the senior management bodies responsible for the routine production and business management of the enterprise perform their functions are mainly located within the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Although the Circular 82 only applies to offshore enterprises controlled by enterprises or enterprise groups located within the PRC, not including those controlled by PRC individuals, the determining criteria set forth in the Circular 82 may reflect the SAT’s general position on how the “de facto management body” test may be applied in determining the tax resident status of all offshore enterprises.

As the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we cannot assure you that we will not be considered to be a PRC tax resident enterprise. In the event that we are determined to be a PRC tax resident enterprise, we would consequently be subject to a 25% corporate income tax on our worldwide taxable income (other than dividends from our wholly owned PRC subsidiaries). In addition, we may be subject to PRC corporate income tax reporting obligations. Furthermore, because the interest may be regarded as being derived from sources within the PRC, we would be obligated to withhold PRC income tax of up to 7% from interest payments on the Notes payable to investors that are Hong Kong resident enterprises that met the requirements to benefit from the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (“**Tax Arrangement**”) (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排). For non-resident investors that are not eligible for a preferential withholding tax rate under the Tax Arrangement between the PRC and Hong Kong, we would be obligated to withhold PRC income tax of up to 10% on interest payments to non-resident enterprise investors or possibly up to 20% on interest payments to non-resident individuals, because the interest may be regarded as being derived from sources within the PRC. Failure to withhold this income tax if required to do so could cause us to be subject to fines and other penalties. If we were treated as a PRC tax resident enterprise, any gain realised by such non-resident investor from the transfer of the Notes may be regarded as PRC source income and be subject to a 10% PRC tax for non-resident enterprises or possibly a 20% tax for non-resident individuals.

The PRC government’s pilot plan to replace business tax with value-added tax (“VAT”) may subject us to more taxes, which could adversely affect our business, future results of operations and prospects.

Pursuant to the PRC Provisional Regulations on Business Tax (中華人民共和國營業稅暫行條例), taxpayers providing taxable services falling under the category of service industry in China are required to pay a business tax at a normal tax rate of 5% of their revenues. In November 2011, the Ministry of Finance and the SAT promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (營業稅改徵增值稅試點方案). Pursuant to this pilot plan and relevant subsequent notices, from 1 January 2012, VAT will gradually replace business tax in the transport and post industry and some of the modern service industries in China. Under the pilot plan, a VAT rate of 6% applies to certain modern service industries. If this plan is extended to apply to our businesses, most of our consolidated affiliated entities may be subject to a VAT rate which is higher than the business tax rate that currently applies to us, which could harm our business, future results of operations and prospects.

Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could adversely affect our business, future results of operations and prospects.

The National People’s Congress passed the 2008 CIT Law and the State Council passed its implementation rules, both of which became effective on 1 January 2008. The 2008 CIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the PRC Income Tax Law concerning Foreign-Invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) effective prior to 1 January 2008. The 2008 CIT Law, however, (i) reduces the statutory rate of the corporate income tax from 33% to 25% and (ii) introduces new tax incentives, subject to various qualification criteria.

The 2008 CIT Law and its implementing rules permit certain “high/new technology enterprises” to enjoy a reduced 15% corporate income tax rate subject to certain new qualification criteria. Pursuant to the Circular on Certain Corporate Income Tax Preferential Treatments jointly issued by the PRC Ministry of Finance and SAT on 22 February 2008, a qualified software enterprise is eligible to be exempted from income tax for its first two profitable years, followed by a 50% reduction of income tax for the subsequent three years. Pursuant to the Measures for the Administration of Key Software Enterprise Accreditation within National Programming Layout (國家規劃布局內重點軟件企業認定管理辦法) issued by, amongst others, SAT on 20 December 2005, a qualified national key software enterprise is entitled to a reduced 10% corporate income tax rate. Certain of our WFOEs and consolidated affiliated entities have been recognised by the relevant authorities as “national key software enterprises”, “software production enterprises” and “high/new technology enterprises”, and therefore are eligible for the preferential tax treatments upon their filing with and approved by the relevant tax authorities. Preferential tax treatment granted to our WFOEs and consolidated affiliated entities by the local governmental authorities are subject to review and may be adjusted or revoked at any time. We cannot assure you that we will be able to maintain our current effective tax rate in the future. If any of the WFOEs and consolidated affiliated entities, which has enjoyed such preferential tax treatments fails to maintain their qualification status or renew their qualifications when the relevant term expires, their applicable corporate income tax rate may increase to 25%, which could have a material and adverse effect on our business, future results of operations and prospects.

We may rely on dividends and other distributions on equity paid by the WFOEs to fund any cash and financing requirements we may have. Any limitation on the ability of our WFOEs to pay dividends to us could materially and adversely affect our business, future results of operations and prospects.

We are a holding company, and we may rely on dividends and other distributions on equity to be paid by our WFOEs to meet our cash and financing requirements, including the funds necessary to pay service any debt we may incur. If any of our WFOEs incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, our WFOEs may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, each of our WFOEs in the PRC is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. With approval by its shareholders in accordance with its articles of association, the WFOE may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Any limitation on the ability of our WFOEs in the PRC to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, under the 2008 CIT Law and the Implementation Rules, dividends generated from the business of our WFOEs in the PRC on or after 1 January 2008 and payable to the WFOEs' immediate holding companies incorporated in Hong Kong may be subject to a withholding tax rate of 10% if the PRC tax authorities determine that we are a non-resident enterprise. If certain conditions and requirements under the Tax Arrangement are met, the withholding tax rate could be reduced to 5% from 10%.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles ("**Circular 75**") (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), issued on 21 October 2005, PRC residents and PRC corporate entities must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas "special purpose company", for the purposes of overseas equity financing activities.

In order to further clarify foreign exchange administration over foreign direct investment and the implementation and application of Circular 75, SAFE issued Circular 106 on 29 May 2007 and the Circular on Operating Rules Concerning Financing and Round-Trip Investment Undertaken by Domestic Residents through Overseas Special-Purpose Vehicles ("**Circular 19**") (國家外匯管理局關於印發《境內居民通過境外特殊目的公司融資及返程投資外匯管理操作規程》的通知) on 20 May 2011, which has been superseded by Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents ("**Circular 21**") (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的規定) promulgated on 11 May 2013.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in a special purpose company are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of a special purpose company is required to update the previously filed registration with the local branch of SAFE, with respect to that special purpose company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. Moreover, the PRC subsidiaries of that special purpose company are required to urge the PRC resident shareholders to update their SAFE registration with the local branch of SAFE when such updates are required under applicable SAFE regulations. If any PRC shareholder fails to make the required SAFE registration or update the previously filed registration, the PRC subsidiaries of that special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their parent company, and the special purpose company may also be prohibited from injecting additional capital into their PRC subsidiaries or extending shareholder loans to their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have notified substantial holders of ordinary shares of the Company whom we know are PRC residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. We, however, cannot provide any assurances that all of our shareholders who are PRC residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth therein may subject such PRC resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to us or restrict us in injecting additional capital or extending loans to our PRC subsidiaries.

As it is uncertain how the SAFE regulations described above will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business, future results of operations and prospects.

Governmental control of currency conversion may limit our ability to obtain sufficient foreign currency to satisfy our currency demands and may affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenues in RMB and substantially all of our cash inflows and outflows are denominated in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC operating subsidiaries. We may convert a portion of our revenues into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our ordinary shares, if any. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies generally without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans

denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay interests in foreign currencies to the holders of the Notes.

PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in the PRC.

PRC laws and regulations, such as the Regulations on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“**M&A Rules**”) (關於外國投資者併購境內企業的規定) adopted in September 2006 and amended on 22 June 2009, the Anti-Monopoly Law (反壟斷法) which became effective on 1 August 2008, and Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) effective from 3 March 2011, established additional procedures and requirements that are expected to make merger and acquisition activities in the PRC by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review. Provisions of the MOFCOM on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定), effective from 1 September 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review by the MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. If the business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or through any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, (“**Circular 698**”) (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知), issued by the SAT, on 10 December 2009 with retroactive effect from 1 January 2008, where a non-resident enterprise conducts an “indirect transfer” by transferring the equity interests of a PRC resident enterprise indirectly via disposing of the equity interests of an overseas holding company, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the non-resident enterprise, being the transferor, shall report to the relevant tax authority of the PRC resident enterprise this indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate

of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of Circular 698. For example, while the term “indirect transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have authority to request information regarding a wide range of foreign entities having no direct contact with the PRC. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an indirect transfer to the relevant tax authority of the PRC resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Circular 698 may be determined by the tax authorities to be applicable to our previous financing transactions where non-resident private equity investors were involved, if any of such transactions were determined by the tax authorities to be in absence of reasonable commercial purpose. As a result, we and our non-resident investors in such transactions may become at risk of being taxed under Circular 698 and we may be required to expend valuable resources to comply with Circular 698 or to establish that we should not be taxed under the general anti-avoidance rule of the 2008 CIT Law, which may have a material and adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us.

Fluctuations in exchange rates may have a material and adverse effect on your investment.

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in the PRC political and economic conditions and the PRC foreign exchange policies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on exchange rates set by the PBOC. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the RMB solely to the U.S. dollar. Under this revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over the following six years. Since July 2008, however, the RMB has traded within a narrow range against the U.S. dollar. As a consequence, the RMB has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. On 19 June 2010, the PBOC announced that the PRC government would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate and on 14 April 2012, PBOC announced that it would allow the RMB to fluctuate against the U.S. dollar by up to 1.0% above or below the central parity rate published by the PBOC.

In March 2014, the PBOC increased the floating band for the trading prices in the interbank foreign exchange market of the Renminbi against the US dollar from 1.0% to 2.0% around the central parity rate. This allows the Renminbi to fluctuate against the US dollar by up to 2.0% above or below the central parity rate published by the PBOC.

We mainly operate in the PRC with most of our transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. We hold some financial assets denominated in U.S. dollars or H.K. dollars subject to certain thresholds stated in our treasury mandate and borrow some bank loans denominated in U.S. dollars from time to time. This exposes us to foreign exchange risk.

Any significant revaluation of RMB may materially and adversely affect our revenue, earnings and financial position, and the value of the Notes in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would reduce the amount of RMB we would receive if we need to convert U.S.

dollars into RMB. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the value of the Notes. It is difficult to predict how this new policy may impact the RMB exchange rate.

We have entered into certain foreign exchange forward contract arrangements to manage our foreign exchange risk in relation to bank loans denominated in U.S. dollars. However, the availability and effectiveness of these current and future arrangements may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material and adverse effect on your investment.

Enforcing your rights as a holder of the Notes across multiple jurisdictions may be difficult.

We are registered in the Cayman Islands, and conduct most of our operations in the PRC through our WFOEs and consolidated affiliated entities in the PRC. All of our Directors are nationals or residents of countries other than the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon our Directors and officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

It may also be difficult or impossible for you to bring an action against us or against our Directors and officers in the Cayman Islands or in the PRC in the event that you believe that your rights have been infringed under the securities laws of the United States. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgement against our assets or the assets of our Directors and officers. Maples and Calder, counsel to the Company as to the Cayman Islands law, has advised that there is uncertainty as to (i) whether the courts in the Cayman Islands would enforce judgements obtained in the United States courts against us or our Directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States and (ii) whether the Cayman Islands courts would entertain actions brought in the Cayman Islands against us or our Directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States. Maples and Calder has further advised us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, a judgment obtained in such jurisdiction will be recognised and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (i) is given by a foreign court of competent jurisdiction; (ii) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given; (iii) is final; (iv) is not in respect of taxes, a fine or a penalty; and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgement of courts.

We have been advised by PRC and Cayman Islands counsel that there is doubt as to the enforceability, in original actions in PRC or Cayman Islands courts, of liabilities based on the United States federal securities laws or the securities or “blue sky” laws of any state within the United States and as to the enforceability in PRC or Cayman Islands courts of judgements of United States courts obtained in actions based on the civil liability provisions of the United States federal securities laws or any such state securities or blue sky laws.

As a result of all of the above, your rights under the Notes may thus be subject to the laws of several jurisdictions, and you may not be able to effectively enforce your rights in multiple legal, bankruptcy and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly and often result in substantial uncertainty and delay.

Implementation of the new labour laws and regulations in the PRC may adversely affect our business and results of operations.

Pursuant to a new labour contract law that became effective in January 2008 and its implementation rules that became effective in September 2008, employers are subject to stricter requirements in terms of signing labour contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labour contracts. Due to the limited period since its effectiveness, and lack of detailed interpretation rules and uniform implementation practice and possible penalties, it is uncertain as to how it would affect our current employment policies and practices. Our employment policies and practices may violate the labour contract law or its implementation rules, and we may thus be subject to related penalties, fines or legal fees. Compliance with the labour contract law and its implementation rules may increase our operating expenses, in particular our personnel expenses. In the event that we decide to terminate some of our employees or otherwise change our employment or labour practices, the labour contract law and its implementation rules may also limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law (中華人民共和國社會保險法) which became effective on 1 July 2011 and on 24 March 2002, the State Council amended Regulation on the Administration of Housing Accumulation Funds (住房公積金管理條例). According to applicable PRC social insurance laws and the Regulation on the Administration of Housing Accumulation Funds, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds and the employers must, together with their employees or separately, pay the social insurance premiums and housing funds for such employees. On 16 January 2014, the Ministry of Human Resources and Social Security promulgated the Provisional Rules on Labour Dispatching (勞務派遣暫行規定), effective 1 March 2014. Intended to control labour dispatching arrangements, these new regulations require that dispatched workers may be designated only to positions of a temporary, supporting or substitute nature, and further require employers to change and adjust their employment structure so that their used dispatched workers should not exceed a statutory cap of 10% of total employees.

We expect our labour costs to increase due to the implementation of these new laws and regulations. As the interpretation and implementation of these new laws and regulations are still evolving, we cannot assure you that our employment practice will at all times be deemed in full compliance with labour-related laws and regulations in the PRC which may subject us to labour disputes or government investigations. If we are deemed to have violated relevant labour laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected. Further, labour disputes, work stoppages or slowdowns at our offices and facilities or any of our clients or suppliers could significantly disrupt our daily operation or our expansion plans and have material and adverse effects on our business.

Inflation in the PRC and measures to contain inflation may negatively affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country and among different demographic sectors in the community. If prices for our services and products rise at a rate that is insufficient to compensate for the rise in the costs, our business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets, and restrictions on state bank lending. Such austerity measures can lead to a slowing of economic growth in the PRC, which could materially and adversely affect our business, future results of operations and prospects.

The outbreak, or threatened outbreak, of any severe epidemics in the PRC could materially and adversely affect our business, future results of operations and prospects.

The outbreak, or threatened outbreak, of any severe epidemics (such as severe acute respiratory syndrome or avian influenza) in the PRC could materially and adversely affect the overall business sentiment and environment in the PRC, particularly if such outbreak is inadequately controlled. This, in turn, could materially and adversely affect domestic consumption, labour supply and, possibly, the overall gross domestic product growth of the PRC. Labour shortages or contraction or slowdown in the growth of domestic consumption in the PRC could materially and adversely affect our business and results of operations. In addition, if any of our employees are affected by any severe epidemics, it could adversely affect or disrupt operations and may also involve a closure of our offices and facilities to prevent the spread of the disease. The spread of any severe epidemics in the PRC may also affect the operations of our customers and suppliers, which could materially and adversely affect our business, future results of operations and prospects.

RISKS RELATING TO NOTES ISSUED UNDER THE PROGRAMME

Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors shall pay attention to any modification, waivers and substitution.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

The Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to (a) any modification (except certain modifications, including increasing quorum requirements relating to meetings) of the Conditions or the Trust Deed which is not materially prejudicial to the interests of the Noteholders or (b) any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg, or lodged with a sub-custodian for the CMU Service (each of Euroclear, Clearstream, Luxembourg, the CMU Service and DTC). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or, in the case of the CMU Service, to the persons for whose account(s) interests in such Global Note are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU Service to us in a relevant CMU Instrument Position Report or any other notification by the CMU Service.

A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. We, as the Issuer, do not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

The Issuer may be unable to redeem the Notes.

On certain dates, including the occurrence of any early redemption event specified in the relevant Pricing Supplement or otherwise and at maturity of the Notes, we, as the Issuer, may, and at maturity, will, be required to redeem all of the Notes. If such an event were to occur, we, as the Issuer, may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Notes would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Group.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, the repayment of the Notes may be adversely affected if, as the Issuer:

- (i) the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- (ii) there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- (iii) there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Notes.

The Notes will be structurally subordinated to all obligations of the Issuer's existing and future subsidiaries and consolidated affiliated entities.

The Notes will not be guaranteed by any of the Issuer's existing or future subsidiaries and consolidated affiliated entities, who together hold substantially all of the Issuer's operating assets and conduct substantially all of the Issuer's business. The Issuer's subsidiaries and consolidated affiliated entities will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. The Notes will be structurally subordinated to all indebtedness and other obligations of the Issuer's subsidiaries and consolidated affiliated entities such that in the event of insolvency, liquidation, reorganisation, dissolution or other winding up of any of the Issuer's subsidiary or consolidated affiliated entity, all of that subsidiary's or consolidated affiliated entity's creditors (including trade creditors) would be entitled to payment in full out of that subsidiary's or consolidated affiliated entity's assets before the Issuer would be entitled to any payment.

In addition, the Trust Deed governing the Notes will, subject to some limitations, permit these subsidiaries and consolidated affiliated entities to incur additional indebtedness and will not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries and consolidated affiliated entities.

The terms of the Notes provide only limited protection against significant corporate events that could adversely impact your investment in the Notes.

While the terms of the Notes contain terms intended to provide protection to noteholders upon the occurrence of certain events involving significant corporate transactions and the Issuer's creditworthiness, these terms are limited and may not be sufficient to protect your investment in the Notes. See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Trust Deed for the Notes also does not:

- require the Issuer to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows or liquidity;
- limit the Issuer's ability to incur indebtedness that is equal in right of payment to the Notes;
- restrict the Issuer's subsidiaries' or consolidated affiliated entities' ability to issue unsecured securities;
- or otherwise incur unsecured indebtedness that would be senior to the Issuer's equity interests in our subsidiaries or consolidated affiliated entities and therefore rank effectively senior to the Notes;
- limit the ability of the Issuer's subsidiaries or consolidated affiliated entities to service indebtedness;
- restrict the Issuer's ability to repurchase or prepay any other of the Issuer's securities or other indebtedness; or
- restrict the Issuer's ability to make investments or to repurchase or pay dividends or make other payments in respect of the Issuer's shares or other securities ranking junior to the Notes.

As a result of the foregoing, when evaluating the terms of the Notes, you should be aware that the terms of the Notes do not restrict the Issuer's ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events that could have an adverse impact on your investment in the Notes.

The Notes do not restrict the Group's ability to incur additional debt or to take other actions that could negatively impact holders of the Notes.

Subject to the negative pledge covenant (see “*Terms and Conditions of the Notes—Certain Covenants—Negative Pledge*”), the Group is not restricted under the Terms and Conditions from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the covenants applicable to the Notes do not require the Group to achieve or maintain any minimum financial results relating to the Group's financial position or results of operations. The Group's ability to recapitalise, incur additional debt and take other actions that are not limited by the Terms and Conditions could diminish the Group's ability to make payments on the Notes and amortising bonds when due.

Considerations related to a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) the payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC "resident enterprise."

In the event we are treated as a PRC "resident enterprise" under the CIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under Condition 10(b) of the "*Terms and Conditions of the Notes*," in the event we are required to pay additional amounts as a result of certain changes in or interpretations of tax law or the stating of an official position regarding the application or interpretation of such law, including any change or interpretation that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC "resident enterprise," we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

RISKS RELATING TO RENMINBI DENOMINATED NOTES

Notes denominated in Renminbi (the "**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Investment in the Renminbi Notes is subject to exchange rate risks

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The Issuer will make all payments of interest and principal with respect to the

Renminbi Notes in Renminbi. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the Hong Kong dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Notes in Hong Kong dollars or any other foreign currency terms will decline.

Renminbi is not freely convertible; there are significant restrictions on the remittance of Renminbi into and outside of the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in June 2010 to cover 20 provinces and cities in the PRC and to make Renminbi trade and other current account item settlement available in all countries worldwide. It was further extended in August 2011 to cover all provinces and cities in the PRC. The Renminbi trade settlements under the pilot scheme have become one of the most significant sources of Renminbi funding in Hong Kong.

On 3 December 2013 MOFCOM further promulgated the Announcement on Issues Concerning Cross-border RMB Direct Investment. In accordance with the Announcement on Issues Concerning Cross-border RMB Direct Investment, the cross-border RMB direct investment and the reinvestment of the invested foreign-funded enterprises shall conform to the requirements of laws, regulations and relevant provisions on foreign investment and abide by relevant provisions of the industrial policy, safety review of foreign capital merger and acquisition and anti-monopoly review on foreign investment of PRC. The foreign-funded enterprises shall not use any fund of cross-border RMB direct investment to make any direct or indirect investment in securities, financial derivatives (excluding the strategic investment in listed companies) or entrusted loans within China.

On 13 October 2011 and on 14 June 2012, PBOC successively issued the Measures on Administration of Renminbi Settlement in relation to Foreign Direct Investment and its implementation regulations (collectively, the “**PBOC RMB FDI Measures**”), which set out operating procedures for PRC banks to handle Renminbi settlement relating to Renminbi FDI and borrowing by foreign-invested enterprises of offshore Renminbi loans. Prior to the PBOC RMB FDI Measures, cross-border Renminbi settlement for Renminbi FDI required approvals from PBOC on a case-by-case basis.

The new rules replace the PBOC approval requirement with a less onerous post-event registration and filing requirement. Under the new rules, foreign invested enterprises (whether established or acquired by foreign investors) need to (i) register their corporate information after the completion of a RMB FDI transaction, and (ii) make post-event registration or filing with the PBOC of any changes in registration information or in the event of increase or decrease of registered capital, equity transfer or replacement, merger, division or other material changes.

As the above announcements and circulars are still relatively new, how they will be applied in practice still remain subject to the interpretation by the relevant PRC authorities.

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting the remittance of Renminbi into or outside the PRC. In the event that the Group is not able to repatriate funds outside the PRC in Renminbi, the Issuer will need to source Renminbi offshore to finance the Issuer’s obligations under Renminbi Notes, and the Issuer’s ability to do so will be subject to the overall availability of Renminbi outside the PRC.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service the Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licenced banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business (the “**Settlement Agreement**”) between the PBOC and Bank of China (Hong Kong) Limited (the “**RMB Clearing Bank**”) to further expand the scope of Renminbi business for participating banks in Hong Kong.

Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit (other than as provided in the following paragraph) on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. In addition, although participating banks are no longer required by the Hong Kong Monetary Authority to apply a minimum Renminbi liquidity ratio of 25 per cent., they are still required to account for Renminbi together with other currencies on the same basis as the statutory liquidity ratio. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for Hong Kong residents of up to RMB20,000 per person per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of Renminbi Notes. To the extent we, as the Issuer, are required to source Renminbi in the offshore market to service Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

PAYMENTS IN RESPECT OF RENMINBI NOTES WILL ONLY BE MADE TO INVESTORS IN THE MANNER SPECIFIED IN SUCH RENMINBI NOTES.

All payments to investors in respect of Renminbi Notes cleared through the CMU Service will be made solely by (i) when Renminbi Notes are represented by Global Notes or Global Note Certificates cleared through the CMU Service, transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and procedures of the CMU Service, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in China).

RISKS RELATING TO THE MARKET GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Issuer's financial condition. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application will be made for the Notes issued under the Programme to be listed on, and permitted to deal in, The Hong Kong Stock Exchange Limited, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so listed or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will be revised by the rating agencies in the future if, in their judgement, the circumstances so warrant. A downgrade in the ratings of any Notes may effect the market price of the Notes.

FORM OF THE NOTES

Bearer Notes

Each Series of Notes to be issued in bearer form (“**Bearer Notes**”) will initially be in the form of either a temporary global note in bearer form (the “**Temporary Global Note**”), without interest coupons, or a permanent global note in bearer form (the “**Permanent Global Note**”), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a “**Global Note**”) will be deposited on or around the issue date of the relevant Series of the Notes with a depositary or a common depositary for Euroclear as operator of the Euroclear System and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether rules in substantially the same form as United States Treasury Regulation § 1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the “**C Rules**”) or rules in substantially the same form as United States Treasury Regulation § 1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the “**D Rules**”) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) or are in registered form for U.S. federal income tax purposes, that neither the C Rules nor the D Rules are applicable. Notes issued in compliance with the D Rules must be initially issued in the form of a Temporary Global Note. Whilst any Bearer Note issued under the D Rules is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification generally to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the relevant Paying Agent (or in the case of Bearer Notes held through the CMU Service, received by the CMU Lodging Agent from CMU Members).

Bearer Notes issued in compliance with the D Rules will be issued through the CMU only if the CMU Members and the CMU Lodging Agent have procedures in place for the certification of non-U.S. beneficial ownership as required under the D Rules.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, from the date (the “**Exchange Date**”) which is 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note after the Exchange Date unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of Temporary Global Notes cannot be collected without such certification of non-U.S. beneficial ownership, as described above.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and
- (ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership, as described above.

within seven days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the C Rules are applicable or that neither the C Rules nor the D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the D Rules are applicable, then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes on or after the Exchange Date for the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership as described above. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note and in the case where the D Rules are applicable, certification as to non-U.S. beneficial ownership, as described above, to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be issued in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following event occurs:
 - (a) Euroclear or Clearstream, Luxembourg, the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

- (b) any of the circumstances described in Condition 14 (Events of Default) occurs in respect of any Note of the relevant Tranche.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Notes issued as Permanent Global Notes may not be issued using the D Rules.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Summary of Provisions Relating to the Notes while in Global Form*” below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days (taking into account any unilateral rights to extend or rollover), the Notes in global form, the Notes in definitive form, each Bearer Note and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(f) AND 1287(a) OF THE U.S. INTERNAL REVENUE CODE.”

The sections referred to provide that United States persons, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Registered Notes

Each Tranche of Notes in registered form (“**Registered Notes**”) will be represented by either:

- (i) individual Note Certificates in registered form (“**Individual Note Certificates**”); or
- (ii) one or more unrestricted global note certificates (“**Unrestricted Global Note Certificate(s)**”) in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S (“**Unrestricted Notes**”) and/or one or more restricted global note certificates (“**Restricted Global Note Certificate(s)**”) in the case of Registered Notes sold to QIBs in reliance on Rule 144A (“**Restricted Notes**”),

in each case as specified in the relevant Pricing Supplement, and references in this Offering Circular to “Global Note Certificates” shall be construed as a reference to Unrestricted Global Note Certificates and/or Restricted Global Note Certificates.

Each Note represented by a Restricted Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC or, as the case may be, in the name of the common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the custodian for DTC (the “**DTC Custodian**”) or a depository of the common depository for Euroclear and/or Clearstream, Luxembourg. Beneficial interests in Notes represented by a Restricted Global Note Certificate may be held through DTC or, as the case may be, Euroclear and/or Clearstream, Luxembourg at any time.

Each Note represented by an Unrestricted Global Note Certificate will be registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or in the name of Cede & Co. as nominee for DTC, and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depository or the DTC Custodian.

If the relevant Pricing Supplement specifies the form of Notes as being “Individual Note Certificates”, then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being “Global Note Certificate exchangeable for Individual Note Certificates”, then the Notes will initially be represented by one or more Global Note Certificates, each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement ; or
- (iii) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Global Note Certificate”, then:
 - (a) in the case of any Global Note Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note Certificate or DTC ceases to be a “clearing agency” registered under the Exchange Act or if at any time DTC is no longer eligible to act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;
 - (b) in the case of any Unrestricted Global Note Certificate held by or on behalf of, Euroclear and/or Clearstream, Luxembourg and/or any other clearing system (other than DTC), if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and
 - (c) in any case, if any of the circumstances described in Condition 14 (*Events of Default*) occurs in respect of any Note of the relevant Tranche.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each

such person's holding). In addition, whenever a Restricted Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Note Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Note Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Note Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Issuer for general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

1. Introduction

- (a) **Programme:** Tencent Holdings Limited (the “**Issuer**”) has established a Medium Term Note Programme (the “**Programme**”) for the issuance of up to US\$5,000,000,000 in aggregate principal amount of notes (the “**Notes**”).
- (b) **Pricing Supplement:** Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes. The terms and conditions applicable to any particular Tranche of Notes are set out in the relevant pricing supplement (the “**Pricing Supplement**”) which supplements, amends and/or replaces these terms and conditions (the “**Conditions**”). In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) **Trust Deed:** The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 10 April 2014 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and DB Trustees (Hong Kong) Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).
- (d) **Agency Agreement:** The Notes are the subject of an issue and paying agency agreement dated 10 April 2014 (the “**Agency Agreement**”) between the Issuer, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as exchange agent (the “**Exchange Agent**”, which expression includes any successor exchange agent appointed from time to time in connection with the Notes), Deutsche Bank Trust Company Americas, Deutsche Bank AG, Hong Kong Branch and Deutsche Bank Luxembourg S.A. as registrars (each, a “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as CMU lodging agent (the “**CMU Lodging Agent**”, which expression includes any successor CMU lodging agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent and the CMU Lodging Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Registrars, the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the “**Agents**” are to the Paying Agents, the Exchange Agent and the Transfer Agents and any reference to an “**Agent**” is to any one of them.

For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such reference shall be construed accordingly.

- (e) **The Notes:** The Notes may be issued in bearer form (“**Bearer Notes**”), or in registered form (“**Registered Notes**”). Bearer Notes will not be sold in the United States or to U.S. persons. All subsequent references in these Conditions to “**Notes**” are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.
- (f) **Summaries:** Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of the Paying Agents.

2. Interpretation

- (a) **Definitions:** In these Conditions the following expressions have the following meanings:

“**Accrual Yield**” has the meaning given in the relevant Pricing Supplement;

“**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement;

“**Additional Financial Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement;

“**Business Day**”, other than in Condition 3(g) (*Registration and delivery of Note Certificates*) means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (ii) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and
- (iii) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

- (iii) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) **“FRN Convention”, “Floating Rate Convention” or “Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that:**
 - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Principal Paying Agent or such other Person, in each case as specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

“Calculation Amount” has the meaning given in the relevant Pricing Supplement;

“Capital Stock” of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Shares and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible or exchangeable into such equity;

“CMU Service” means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

“Consolidated Affiliated Entity” of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under International Accounting Standards 27, *Consolidated and Separate Financials Statements* (including any changes, amendments or supplements thereto) or, if such person prepares its financial statements in accordance with accounting principles other than IFRS, the equivalent of International Accounting Standards 27, *Consolidated and Separate Financial Statements* under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Issuer;

“Controlled Entity” of any Person means a **Subsidiary or a Consolidated Affiliated Entity** of such Person;

“Coupon Sheet” means, in respect of a Note, a coupon sheet relating to the Note;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (i) if “**Actual/Actual (ICMA)**” is so specified, means:
 - (A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) where the Calculation Period is longer than one Regular Period, the sum of:
 - (1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and
 - (2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;
- (ii) if “**Actual/365**” or “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x (Y_2 - Y_1)] + [30x (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and “**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x (Y_2-Y_1)] + [30x (M_2-M_1)] + (D_2-D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and “**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30; and

- (vii) if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x (Y_2-Y_1)] + [30x (M_2-M_1)] + (D_2-D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Early Redemption Amount (Triggering Event)**” means, in respect of any Note, 101 per cent. of its principal amount or such other amount as may be specified in, or determined in accordance with the relevant Pricing Supplement;

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**Early Termination Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

“**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended;

“**Extraordinary Resolution**” has the meaning ascribed to it in the Trust Deed;

“**Final Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**First Interest Payment Date**” means the date specified in the relevant Pricing Supplement;

“**Fixed Coupon Amount**” has the meaning given in the relevant Pricing Supplement;

“**Group**” means the Issuer and its Controlled Entities, taken as a whole;

“**Holder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

“**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC;

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Interest Amount**” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“**Interest Commencement Date**” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

“**Interest Determination Date**” has the meaning given in the relevant Pricing Supplement;

“Interest Payment Date” means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the relevant Pricing Supplement;

“Issue Date” has the meaning given in the relevant Pricing Supplement;

“Lien” means any mortgage, charge, pledge, lien or other form of encumbrance or security interest;

“Margin” has the meaning given in the relevant Pricing Supplement;

“Material Controlled Entity” means any Controlled Entity of the Issuer:

- (i) whose total revenue (consolidated in the case of a Controlled Entity which has Controlled Entities) as shown by its latest audited income statement attributable to the Issuer is at least 10% of the consolidated total revenue as shown by the latest issued audited consolidated income statement of the Issuer and its consolidated Controlled Entities; or
- (ii) whose net income (consolidated in the case of a Controlled Entity which has Controlled Entities) as shown by its latest audited income statement attributable to the Issuer, is at least 10% of the consolidated net income as shown by the latest issued audited consolidated income statement of the Issuer and its consolidated Controlled Entities; or
- (iii) whose net assets (consolidated in the case of a Controlled Entity which itself has Controlled Entities) as shown by its latest audited balance sheet, are at least 10% of the consolidated net assets of the Issuer and its Controlled Entities as shown by the latest issued audited consolidated balance sheet of the Issuer and its Controlled Entities, including the investment of the Issuer and its consolidated Controlled Entities in each Controlled Entity whose accounts are not consolidated with the consolidated audited accounts of the Issuer and of associated companies and after adjustment for minority interests;

provided that, in the case of each of (i), (ii) and (iii) above:

- (a) in the case of a corporation or other business entity becoming a Controlled Entity after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer and its Controlled Entities for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or

other business entity becomes a Controlled Entity are issued, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Controlled Entity which itself has Controlled Entities) of such Controlled Entity in such accounts;

- (b) if at any relevant time in relation to the Issuer or any Controlled Entity which itself has Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net income or net assets of the Issuer and/or any such Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;
 - (c) if at any relevant time in relation to any Controlled Entity, no accounts are audited, its net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Controlled Entity prepared for this purpose by or on behalf of the Issuer; and
 - (d) if the accounts of any Controlled Entity (not being a Controlled Entity referred to in proviso (a) above) are not consolidated with those of the Issuer, then the determination of whether or not such Controlled Entity is a Material Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or
- (iv) any Controlled Entity of the Issuer to which is transferred all or substantially all of the assets of a Controlled Entity which immediately prior to such transfer was a Material Controlled Entity, provided that the Material Controlled Entity which so transfers its assets shall forthwith upon such transfer cease to be a Material Controlled Entity and the Controlled Entity to which the assets are so transferred shall become a Material Controlled Entity at the date on which the first issued audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Controlled Entity would continue to be a Material Controlled Entity on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) or (iii) above.

An Officers' Certificate stating that, in their opinion, a Controlled Entity is or is not, or was or was not, a Material Controlled Entity shall, in the absence of manifest error, be conclusive and binding on all parties. The Officers' Certificate shall, if there is a dispute as to whether any Controlled Entity of the Issuer is or is not a Material Controlled Entity be accompanied by a report by an internationally recognised firm of accountants addressed to the directors of the Issuer as to proper extraction of the figures used by the Issuer in determining the Material Controlled Entities of the Issuer and mathematical accuracy of the calculation;

“**Maturity Date**” has the meaning given in the relevant Pricing Supplement;

“**Maximum Redemption Amount**” has the meaning given in the relevant Pricing Supplement;

“**Minimum Redemption Amount**” has the meaning given in the relevant Pricing Supplement;

“**Noteholder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

“**Officer**” means the chairman of the board of directors, the chief executive officer, the president, the chief financial officer, any vice president, the treasurer or the secretary of the Issuer, or in the event that the Issuer is a partnership or a limited liability company that has no such officers, a person duly authorised under applicable law by the general partner, managers, members or a similar body to act on behalf of the Issuer;

“**Officers’ Certificate**” means a certificate signed by two Officers of the Issuer, one of whom is the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer, or by an Officer and either an assistant treasurer or an assistant secretary of the Issuer;

“**Opinion of Counsel**” means an opinion (in form and substance acceptable to the Trustee) of independent legal advisers of recognised international standing that is acceptable to the Trustee;

“**Optional Redemption Amount (Call)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**Optional Redemption Amount (Put)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“**Optional Redemption Date (Call)**” has the meaning given in the relevant Pricing Supplement;

“**Optional Redemption Date (Put)**” has the meaning given in the relevant Pricing Supplement;

“**Participating Member State**” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“**Payment Business Day**” means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, (a) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**PRC**” means, for the purpose of these Conditions, the People’s Republic of China excluding Hong Kong, Macau and Taiwan;

“Preferred Shares” as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends upon liquidation, dissolution or winding up;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;
- (ii) in relation to Australian dollars, it means Sydney and in relation to New Zealand dollars, it means Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent or, in each case, the principal financial centre as is specified in the applicable Pricing Supplement; and
- (iii) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Redemption Amount (Triggering Event), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

“Reference Banks” has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer and approved by the Trustee in the market that is most closely connected with the Reference Rate and notified in writing to the Calculation Agent;

“Reference Price” has the meaning given in the relevant Pricing Supplement;

“Reference Rate” has the meaning given in the relevant Pricing Supplement;

“Regular Period” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“**Relevant Date**” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“**Relevant Financial Centre**” has the meaning given in the relevant Pricing Supplement;

“**Relevant Indebtedness**” means any Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Time**” has the meaning given in the relevant Pricing Supplement;

“**Reserved Matter**” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“**Securities Act**” means the United States Securities Act of 1933, as amended;

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“**SEHK**” means The Stock Exchange of Hong Kong Limited;

“**Specified Currency**” has the meaning given in the relevant Pricing Supplement;

“**Specified Denomination(s)**” has the meaning given in the relevant Pricing Supplement;

“**Specified Office**” has the meaning given in the Agency Agreement;

“**Specified Period**” has the meaning given in the relevant Pricing Supplement;

“**Subsidiary**” of any person means any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50 per cent. of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (b) any partnership, joint venture limited liability company or similar entity of which more than 50 per cent. of the capital accounts, distribution rights, total equity and

voting; or interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person; unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Issuer;

“**Talon**” means a talon for further Coupons;

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**Treaty**” means the Treaty establishing the European Communities, as amended;

“**Voting Stock**” of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors, managers or trustees, as applicable, of such Person; and

“**Zero Coupon Note**” means a Note specified as such in the relevant Pricing Supplement.

(b) **Interpretation:** In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Amounts (as defined in Condition 13 (*Taxation*)), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any Additional Amounts and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “**outstanding**” shall be construed in accordance with the Trust Deed;
- (vii) if an expression is stated in Condition 2(a) (*Interpretation—Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is “**not applicable**” then such expression is not applicable to the Notes; and
- (viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

- (a) **Bearer Notes:** Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. Bearer Notes issued in compliance with United States Treasury Regulation § 1.163-5(c)(2)(i)(D) or any successor provision for purposes of Section 4701 of the US Internal Revenue Code (“**TEFRA D**”) must be initially represented by a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes upon certification of non-U.S. beneficial ownership in accordance with the TEFRA D rules.
- (b) **Title to Bearer Notes:** Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (c) **Registered Notes:** Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement. Registered Notes are not exchangeable to Bearer Notes or vice versa.
- (d) **Title to Registered Notes:** The relevant Registrar will maintain a register outside the United Kingdom in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the “**Register**”). In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.
- (e) **Ownership:** The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
- (f) **Transfers of Registered Notes:** Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) **Registration and delivery of Note Certificates:** Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and

risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

- (h) **No charge:** The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the relevant Registrar or any Transfer Agent but against such indemnity by the transferor as the such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) **Closed periods:** Noteholders may not require transfers to be registered:
 - (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;
 - (ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 10(b) (*Redemption for tax reasons*) or Condition 10(c) (*Redemption at the option of the Issuer*); and
 - (iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 10(e) (*Redemption at the option of the Noteholders*) or Condition 10(f) (*Redemption for Triggering Event*).
- (j) **Regulations concerning transfers and registration:** All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations.

*Notwithstanding anything contained in these Conditions, for so long as any of the Notes is represented by a Global Note or a Global Note Certificate held on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or The Depository Trust Company (“DTC”) and/or the CMU Service (as the case may be), each person (other than Euroclear or Clearstream, Luxembourg, DTC or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or of DTC or of the CMU Service as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC or the CMU Service as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrars, the Exchange Agent and the Transfer Agents as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note or the registered holder of the relevant Global Note Certificate shall be treated by the Issuer, any Paying Agent, any Transfer Agent, any Registrar and the Exchange Agent as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or Global Note Certificate, and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly. Notes which are represented by a Global Note or a Global Note Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service as the case*

may be. References to Euroclear, Clearstream, Luxembourg, DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee, the CMU Lodging Agent, as the case may be.

4. Status

The Notes and any related Receipts and Coupons constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which will at all times rank (i) equally without any preference among themselves; (ii) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application; (iii) senior in right of payment to all of the Issuer's existing and future indebtedness expressly subordinated in right of payment to the Notes; (iv) be effectively subordinated to all of the Issuer's existing and future secured indebtedness, to the extent of the value of the assets serving as security therefor; and (v) be structurally subordinated to all existing and future indebtedness and other liabilities of the Issuer's Controlled Entities.

5. Certain Covenants

(a) *Negative Pledge*

So long as any Note remains outstanding, the Issuer will not create or have outstanding, and the Issuer will ensure that none of its Material Controlled Entities will create or have outstanding, any Lien upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) securing any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness of either of the Issuer or any Material Controlled Entities, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution of Noteholders.

(b) *Consolidation, Merger and Sale of Assets*

The Issuer will not consolidate with or merge into any other Person in a transaction in which the Issuer is not the surviving entity, or sell, assign, convey, transfer, lease or otherwise dispose its properties and assets substantially as an entirety to any Person unless:

- (i) any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the jurisdiction of the Cayman Islands or Hong Kong and such Person expressly assumes by a supplemental documentation all the obligations of the Issuer under the Notes, including the obligations to pay Additional Amounts in respect of principal, premium and interest which may be payable under Condition 13 (*Taxation*) with respect to any jurisdiction in which it is organised or resident for tax purposes, subject to exclusions equivalent to those contained in Condition 13 (*Taxation*);
- (ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred; and

- (iii) the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease complies with the Conditions and that all conditions precedent therein provided for relating to such transaction have been complied with.

(c) **Reports**

- (i) So long as any Notes remain outstanding, the Issuer will file with the Trustee and furnish to the Noteholders upon request, as soon as they are available but in any event not more than 30 calendar days after they are filed with SEHK or, if the Issuer's common shares are no longer listed on the SEHK, any other recognised exchange on which the Issuer's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided that* if at any time the common shares of the Issuer ceases to be listed for trading on a recognised stock exchange, the Issuer will file with the Trustee and furnish to the holders upon request:
 - (A) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Issuer, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement and a year-to-year comparison to the prior year) audited by a member firm of an internationally recognised firm of independent accountants;
 - (B) as soon as they are available, but in any event within 90 calendar days after the end of the first semi-annual fiscal period of the Issuer, copies of its unaudited financial statement (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement and a period-to-period comparison to the first semi-annual fiscal period of the prior year) prepared on a basis consistent with the audited financial statements of the Issuer and reviewed by a member firm of an internationally recognised firm of independent accountants, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Issuer to the effect that such financial statements are true in all material respects and present fairly the financial position of the Issuer as at the end of, and the results of its operations for, the relevant semi-annual period;
 - (C) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third fiscal quarters of the Issuer, copies of the unaudited financial statements (on a consolidated basis) in respect of such fiscal quarter (including a statement of income, balance sheet and cash flow statement and a period-to-period comparison to the relevant fiscal quarter of the prior year) prepared on a basis consistent with the audited financial statements of the Issuer, together with a certificate signed by the person then authorised to sign financial statements on behalf of the Issuer to the effect that such financial statements are true in all material respects and present fairly the financial position of the Issuer as at the end of, and the results of its operations for, the relevant fiscal quarter; and
 - (D) as soon as possible and in any event within 14 calendar days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an Officers' Certificate of the Issuer setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto.
- (ii) So long as any Notes representing Restricted Notes (as defined in the Trust Deed) remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer will furnish, upon the request of any holder of a beneficial interest in such Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such

holder or beneficial owner or to a prospective purchaser of the Note or interest therein who is a qualified institutional buyer within the meaning of Rule 144A, to the extent required to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of the Note or beneficial interest therein in reliance on Rule 144A unless, at the time of such request, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from the registration requirements of Section 12(g) of the Exchange Act pursuant to Rule 12g3-2(b) under the Exchange Act.

6. Fixed Rate Note Provisions

- (a) **Application:** This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 11 (*Payments—Bearer Notes*) and 12 (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) **Fixed Coupon Amount:** The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) **Calculation of interest amount:** The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note and Index-Linked Interest Note Provisions

- (a) **Application:** This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Accrual of interest:** The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 11 (*Payments—Bearer Notes*) and 12 (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received

by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) **Screen Rate Determination:** If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the Relevant Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Relevant Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer, at approximately 11.00 a.m. (local

time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(vi) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

(A) the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent.

(B) and the Relevant Screen Page is not available or, if sub-paragraph (v)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (v)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request the principal Hong Kong office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. If all four Reference Banks provide the Calculation Agent with such offered quotations, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations;

(C) if subparagraph (v)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in CNH for a period equal to that which would have been used for the Reference Rate by leading banks in the Hong Kong inter-bank market. If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest shall be (i) the offered rate for deposits in CNH for a period equal to that which would have been used for the Reference Rate by a bank,

or (ii) the arithmetic mean of the offered rates for deposits in CNH for a period equal to that which would have been used for the Reference Rate by two or more banks, in each case as informed to the Calculation Agent by such bank or banks (which shall be such bank or banks being in the opinion of the Issuer suitable for such purpose) as being quoted by each such bank at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date to leading banks in the Hong Kong inter-bank market, *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period); and

(D) in no event shall the Rate of Interest be less than zero per cent. per annum.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (d) **ISDA Determination:** If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and
 - (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
 - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (e) **Index-Linked Interest:** If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.
- (f) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (g) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (h) **Calculation of other amounts:** If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.
- (i) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee and Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period, unless the Trustee otherwise requires. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (j) **Notifications etc:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

- (a) **Application:** This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

- (b) **Late payment on Zero Coupon Notes:** If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of receipt of all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

- (a) **Application:** This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) **Rate of Interest:** If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, each Note will be redeemed at its Final Redemption Amount on the Maturity Date, subject as provided in Conditions 11 (*Payments—Bearer Notes*) and 12 (*Payments—Registered Notes*).
- (b) **Redemption for tax reasons:** the Notes may be redeemed at the option of the Issuer in whole, but not in part:
 - (i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if, before giving such notice, the Issuer (or a successor) satisfies the Trustee that:

- (A) the Issuer or a successor has or will become obliged to pay Additional Amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands, the PRC or other jurisdiction of incorporation or tax residence or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the Tranche of the Notes being redeemed or in the case that the taxing jurisdiction is other than the Cayman Islands or the PRC on or after the date that the relevant jurisdiction's taxes, duties, assessments or governmental charges became subject to the provisions of Condition 13 (*Taxation*) pursuant to condition 13(c); and

- (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall procure that there is delivered to the Trustee (A) an Officers' Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (B) an Opinion of Counsel to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

The Trustee shall be entitled without further enquiry to accept and rely upon such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the holders of the Notes, Receipts and Coupons.

- (c) **Redemption at the option of the Issuer:** If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- (d) **Partial redemption:** If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) **Redemption at the option of the Noteholders:** If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date

(Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes. For as long as Bearer Notes issued under TEFRA D are represented by a temporary Global Note, a holder's Put Option will be available only to the extent that the certifications required under TEFRA D with respect to non-U.S. beneficial ownership has been received by the Issuer or Agent.

- (f) **Redemption for Triggering Event:** If a Triggering Event occurs, unless the Issuer has exercised its right to redeem the Notes under Condition 10 (Redemption for tax reasons) or Condition 10(c) (Redemption at the option of the Issuer), it will be required to make an offer to repurchase all or, at the Noteholder's option, any part, of each Noteholder's Notes pursuant to the offer described below (the "**Triggering Event Offer**") on the terms set forth in the Trust Deed and the Notes. In the Triggering Event Offer, the Issuer will be required to offer payment in cash equal to the Early Redemption Amount (Triggering Event) plus accrued and unpaid interest, if any, on the Notes repurchased to, but not including, the date of purchase (the "**Triggering Event Payment**").

Within 30 days following any Triggering Event, the Issuer shall give notice to Noteholders, the Trustee and the Principal Paying Agent in accordance with Condition 22 (*Notices*), which notice shall describe the transaction or transactions that constitute the Triggering Event and set forth an offer to repurchase the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is given (the "**Triggering Event Put Date**"), pursuant to the procedures required by the Notes and described in such notice.

To exercise such right, the holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Triggering Event Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed. A Triggering Event Put Exercise Notice, once delivered, shall be irrevocable.

On the Triggering Event Put Date, the Issuer shall be required, to the extent lawful, to:

- (i) accept for payment all Notes or portions of Notes properly tendered pursuant to the Triggering Event Offer;
- (ii) deposit with the Principal Paying Agent an amount equal to the Triggering Event Payment in respect of all Notes or portions of Notes properly tendered; and
- (iii) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

In this Condition 10(f) (*Redemption for Triggering Event*):

“**Triggering Event**” means (A) any change in or amendment to the laws, regulations and rules of the PRC or the interpretation or application thereof (“**Change in Law**”) that results in (i) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the consolidated financial statements of the Issuer for the most recent fiscal quarter and (ii) the Issuer being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in the consolidated financial statements of the Issuer for the most recent fiscal quarter; and (B) the Issuer has not furnished to the Trustee, prior to the date that is twelve months after the date of the Change in Law, an Opinion of Counsel or an opinion from an Independent Financial Advisor stating either (1) the Issuer is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in the consolidated financial statements of the Issuer for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganisation plan of the Issuer) or (2) such Change in Law would not materially adversely affect the Issuer’s ability to make principal, premium (if any) and interest payments on the Notes when due; and

“**Independent Financial Advisor**” means an accounting, appraisal, investment banking firm or consultant of nationally recognised standing that is acceptable to the Trustee;

- (g) **Early redemption of Zero Coupon Notes:** Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
- (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

- (h) **Purchase:** The Issuer or any of its Controlled Entities may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.
- (i) **Cancellation:** All Notes so redeemed or purchased by the Issuer or any of its Controlled Entities and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. Payments—Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

- (a) **Principal:** Payments of principal and premium shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may

be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

- (b) **Interest:** Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal, premium and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

- (c) **Payments in New York City:** Payments of principal, interest or premium may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the principal, premium and interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such principal, premium and interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) **Payments subject to fiscal laws:** All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but (except as described in (ii) below) subject to the provisions of Condition 13 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Deductions for unmatured Coupons:** If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

- (f) **Unmatured Coupons void:** If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption and Purchase—Redemption for tax reasons*), Condition 10(c) (*Redemption and Purchase—Redemption at the option of the Issuer*), Condition 10(e) (*Redemption and Purchase—Redemption at the option of the Noteholders*), Condition 10(f) (*Redemption and Purchase—Redemption for Triggering Event*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) **Payments on business days:** If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) **Payments other than in respect of matured Coupons:** Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) **Exchange of Talons:** On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 16 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments—Registered Notes

This Condition 12 is only applicable to Registered Notes.

- (a) **Principal:** Payments of principal and premium shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) **Interest:** Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal, premium and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

- (c) **Payments subject to fiscal laws:** All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but (except as described in (ii) below) subject to the provisions of Condition 13 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any intergovernmental agreement with respect thereto or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) **Payments on business days:** Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal, premium and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be

entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

- (e) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) **Record date:** Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. Taxation

- (a) All payments of principal, premium and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands, the PRC or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note or Coupon:
 - (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its or a beneficial owner having or having had some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
 - (ii) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any European Council Directive or law amending, implementing or complying with, or introduced in order to conform to, such Directives; or
 - (iii) held by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon (where presentation is required) to another Paying Agent; or
 - (iv) where the relevant Note or Coupon or Note Certificate is presented (where presentation is required) or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such Additional Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or
 - (v) where the tax, duty, assessment or governmental charge would not have been imposed but for the failure by the Holder of such Note or Coupon or the beneficial owner thereof to comply with any request of the Issuer, addressed to the Holder, to provide certification or

information concerning the nationality, residence or identity of the Holder or beneficial owner of the Note, to the extent such certification or information is required under the laws of the relevant taxing jurisdiction in order to reduce or eliminate the deduction or withholding.

- (b) Nor will any Additional Amounts be paid with respect to any tax, duty, assessment or governmental charge (i) required to be withheld or deducted by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (“**FATCA**”), any current or future U.S. Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction pursuant to the implementation of FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or any intergovernmental agreement with respect thereto, or any other agreement pursuant to the implementation of FATCA (in each case, “**FATCA withholding**”), (ii) imposed other than by way of withholding or (iii) imposed on a payment to a Holder that is a fiduciary, partnership or person other than the beneficial owner to the extent that under the tax laws of the relevant taxing jurisdiction the payment would be required to be included in the income of a settlor or beneficiary with respect to such fiduciary, a partner of such partnership or the beneficial owner and such settlor, beneficiary, partner or beneficial owner would not have been entitled to receive Additional Amounts had it been the Holder of the Note or Coupon.
- (c) If the Issuer or a successor is organised or becomes at any time tax resident in any jurisdiction other than the Cayman Islands and the PRC references in these Conditions to the Cayman Islands and the PRC shall be construed as references to the Cayman Islands and the PRC and/or such other jurisdiction.

14. Events of Default

Each of the following events constitute an event of default (each, an “**Event of Default**”) with respect to any Note:

- (a) *Non-Payment of principal*: the Issuer fails to pay the principal or premium (if any) of any of the Notes when due; or
- (b) *Non-Payment of interest*: the Issuer fails to pay the interest of any of the Notes when due and such failure continues for a period of 30 days; or
- (c) *Breach of Consolidation, Merger and Sale of Assets Covenant*: the Issuer defaults in the performance of, or breaches, its obligations under Condition 5(b) (*Consolidation, Merger and Sale of Assets*); or
- (d) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes (other than a default specified in clauses (a), (b) or (c) above), the Agency Agreement or Trust Deed and such default remains unremedied for 30 days after written notice by the Trustee has been delivered to the Issuer; or
- (e) **Cross-acceleration**:
 - (i) any Indebtedness of the Issuer or any of its Material Controlled Entities is not paid when due or (as the case may be) within any originally applicable grace period;
 - (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Controlled Entity or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

- (iii) the Issuer or any of its Material Controlled Entities fails to pay when due any amount payable by it under any guarantee of any Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds the greater of (y) U.S.\$100 million (or its equivalent in any other currency or currencies) and (z) 2.5 per cent. of the Issuer's Total Equity; or

- (f) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer or any of its Material Controlled Entities and continue(s) unsatisfied and unstayed for a period of 90 days after the date(s) thereof or, if later, the date therein specified for payment, and such judgment(s) or order(s) exceed the greater of (y) U.S.\$100 million (or its equivalent in any other currency or currencies) and (z) 2.5 per cent. of the Issuer's Total Equity; or
- (g) *Insolvency, etc.*: the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or any of its Material Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer or any of its Material Controlled Entities bankrupt or insolvent, or approving as final and non-appealable a petition seeking reorganisation, arrangement, adjustment, or composition of or in respect of the Issuer or any of its Material Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of its Material Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days; or
- (h) *Voluntary Arrangements*: the commencement by the Issuer or any of its Material Controlled Entities of a voluntary case or proceeding under any applicable state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer or any of its Material Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganisation or relief with respect to the Issuer or any of its Material Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of its Material Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer or any of its Material Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as they become due, or the admission by the Issuer or any of its Material Controlled Entities in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer or any of its Material Controlled Entities that resolves to commence any such action; or
- (i) *Analogous event*: any event occurs which under the laws of the Cayman Islands or the PRC has an analogous effect to any of the events referred to in paragraphs (f) (*Unsatisfied judgment*) to (h) (*Voluntary Arrangements.*) above; or
- (j) *Unlawfulness*: the Notes, the Trust Deed or the Agency Agreement is or becomes or is claimed to be unenforceable, invalid, ceases to be in full force and effect by the Issuer, or is deemed to contravene, breach or violate the laws of any relevant jurisdiction.

If an Event of Default (other than an Event of Default described in clauses (g) and (h) above) shall occur and be continuing, either the Trustee at its discretion may or, if so requested in writing by Noteholders holding not less than 25% in aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution, shall give notice to the Issuer that the Notes are immediately due and payable at their Early Termination Amount (together with accrued interest and any Additional Amount payable in respect thereof) without further action or formality. If an Event of Default in clause (e) above shall occur, the declaration of acceleration of the Notes shall be automatically annulled if the default triggering such Event of Default pursuant to clause (e) shall be remedied or cured by the Issuer or any of its Material Controlled Entities or waived by the holders of the relevant indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium, if any, or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

If an Event of Default in clauses (g) or (h) above shall occur, the Notes shall automatically, and without any declaration or other action by the Trustee or any Noteholder, become immediately due and payable at their Early Termination Amount (together with accrued interest and any Additional Amount payable in respect thereof).

15. Defeasance

- (a) The Trust Deed will provide that the Issuer will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Trust Deed will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the relevant Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:
 - (i) the Issuer (A) has deposited with the Trustee (or its agent), in trust, cash in Specified Currency in an amount sufficient to pay the principal of, premium, if any, accrued interest and any other amount on the Notes on the relevant Maturity Date for such payments in accordance with the terms of the Trust Deed and the Notes and (B) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognised firm of independent accountants to the effect that the amount deposited by the Issuer is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the relevant Maturity Date for such payment in accordance with the terms of the Trust Deed and the Conditions;
 - (ii) In the case of Notes that were issued as Restricted Notes (as defined in the Trust Deed), the Issuer has delivered to the Trustee either (A) an Opinion of Counsel with respect to U.S. federal income tax matters to the effect that, and based on a change in applicable U.S. federal income tax law occurring after the relevant Issue Date to the effect that beneficial owners will not recognise income, gain or loss for U.S. federal income tax purposes as a result of the Issuer's exercise of its option under this Condition 15 and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred or (B) a ruling directed to the Issuer or the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel;
 - (iii) the Issuer has delivered to the Trustee (A) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 183 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15

of the New York Debtor and Creditor Law and (B) an Opinion of Counsel acceptable to the Trustee to the effect that after the passage of 183 days following the deposit, the trust fund will not be subject to the effect of Articles 31 and 32 of the PRC Enterprise Bankruptcy Law; and

(iv) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Issuer or any of its Controlled Entities is a party or by which the Issuer or any of its Controlled Entities is bound.

(b) The Trust Deed will further provide that:

(i) the provisions of the Trust Deed applicable to the Notes will no longer be in effect with respect to:

(A) Condition 5(a) (*Negative Pledge*); and

(B) Condition 10(f) (*Redemption for Triggering Event*); and

(ii) any of the Events of Default provided in Conditions 14(d) (*Breach of other obligation*), with respect to Condition 5(a) or Condition 10(f) and Events of Default provided in Condition 14(e) (*Cross-acceleration*) or Condition 14(f) (*Unsatisfied judgment*) shall be deemed not to be Events of Default,

upon, among other things, (X) the deposit with the Trustee, in trust, of cash in Specified Currency in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the relevant Maturity Date of such payments in accordance with the terms of the Trust Deed and the Notes, (Y) the satisfaction of the provisions described in Condition 15(a)(iii) and (Z) in the case of Notes that were issued as Restricted Notes, the delivery by the Issuer to the Trustee of an Opinion of Counsel with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognise income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

(c) In the event the Issuer exercises its option to omit compliance with certain covenants and provisions of the Trust Deed with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default, the Issuer will remain liable for any amounts due on the Notes at the time of the acceleration resulting from such Event of Default.

16. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

17. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

18. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or pre-funded and/or provided with security to its satisfaction, as well as relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (i) the Issuer shall at all times maintain a principal paying agent and a registrar; and
- (ii) where the Issuer maintains a paying agent in an EU member state, the Issuer shall at all times maintain a paying agent in at least one EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC; and
- (iii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and
- (iv) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU Service; and
- (v) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

19. Meetings of Noteholders; Modification and Waiver

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or any modifications to the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than five per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing more than 50 per cent. or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders of not less than 90 per cent. of the aggregate principal amount outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification and waiver:** The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver of modification shall be binding on the Noteholders and unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

- (c) **Directions from Noteholders:** Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

- (d) **Certificates and Reports:** The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

20. Enforcement

The Trustee may at any time, at its absolute discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified and/or pre-funded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

21. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, and in accordance with the Trust Deed, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes; *provided* that in order for additional Registered Notes to be consolidated and form a single Series with outstanding Registered Notes of the relevant Series and in the case that the additional Registered Notes are issued as Restricted Notes, the additional Registered Notes must be fungible with the outstanding Registered Notes of such Series for U.S. federal income tax purposes; and provided further that, in the case of Bearer Notes that are issued under the “TEFRA D” rules and are initially represented by interests in a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes, such consolidation may occur only following certification of non-U.S. beneficial ownership and exchange of interests in the Temporary Global Note for interests in the Permanent Global Note or definitive Bearer Notes in accordance with the TEFRA D rules.

22. Notices

- (a) **Bearer Notes:** Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) **Registered Notes:** Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, Luxembourg, DTC or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice.

23. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

24. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

25. Governing Law and Jurisdiction

- (a) **Governing law:** The Notes, the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.
- (b) **English courts:** The courts of England have jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of its nullity.
- (c) **Appropriate forum:** The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

- (d) ***Rights of the Noteholders to take proceedings outside England:*** Condition 25(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 25 prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) ***Process agent:*** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Principal Paying Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.
- (f) ***Consent to enforcement etc.:*** The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.
- (g) ***Waiver of immunity:*** To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

EXCHANGE RATE INFORMATION

THE PRC

The PBOC, the central bank of the PRC, sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the interbank foreign exchange market after the closing of the market on each working day and makes it the central parity for the trading against the Renminbi on the following working day. In March 2014, the PBOC increased the floating band for the trading prices in the interbank foreign exchange market of the Renminbi against the US dollar from 1.0% to 2.0% around the central parity rate. This allows the Renminbi to fluctuate against the US dollar by up to 2.0% above or below the central parity rate published by the PBOC.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this Offering Circular or will use in the preparation of our periodic reports or any other information to be provided to you:

Period	Noon Buying Rate			
	Period end	Average ⁽¹⁾	High	Low
		<i>(CNY per US\$1.00)</i>		
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.3088	6.3879	6.2221
2013	6.0537	6.1478	6.2438	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1448	6.0591
March	6.2164	6.1729	6.2273	6.1183

Source: *Federal Reserve Statistical Release*

(1) Determined by averaging the daily rates during that period.

On 31 December 2013, the U.S. dollar/Renminbi exchange rate was US\$1.00 to RMB6.0537.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this Offering Circular were made at a rate of RMB6.0537 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on 31 December 2013. We make no representation that any U.S. dollar, Renminbi, or H.K. dollar amounts could have been, or could be, converted into U.S. dollars, Renminbi or H.K. dollars, as the case may be, at any particular rate, at the rates stated above, or at all.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Series of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

Pricing Supplement dated [●]

Tencent Holdings Limited

Issue of [Aggregate Nominal Amount of Series] [Title of Notes] under the U.S.\$5,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [●] 2014. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [and the supplemental Offering Circular dated [date]].

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

- | | |
|---|---|
| 1. Issuer: | Tencent Holdings Limited |
| 2. [(i) Series Number:] | [●] |
| [(ii) Tranche Number: | [●] |
| <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]</i> | |
| 3. Specified Currency or Currencies: | [●] |
| 4. Aggregate Nominal Amount: | [●] |
| [(i)] [Series]: | [●] |
| [(ii) Tranche: | [●] |
| 5. (i) Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| (ii) Net Proceeds | [●] [(Required only for listed issues)] |
| 6. (i) Specified Denominations ^{1,2} : | [●] |
| (ii) Calculation Amount: | [●] |

¹ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

7. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
8. Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]³
- [If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
9. Interest Basis: [●] per cent. Fixed Rate]
- [[Specify reference rate] +/- [●] per cent. Floating Rate]
- [Zero Coupon]
- [Index Linked Interest]
- [Other (Specify)]
- (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency]
- [Partly Paid]
- [Instalment]
- [Other (Specify)]

² If the specified denomination is expressed to be EUR50,000 (or EUR100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR50,000 (or EUR100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) and integral multiples of [EUR1,000] in excess thereof up to and including [EUR99,000]/[EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR99,000]/[EUR199,000]. In relation to any issue of Notes which are a “Global Note exchangeable for Definitive Notes” in circumstances other than “in the limited circumstances specified in the Global Notes”, such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

³ Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

11. Change of Interest or Redemption/ Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Put/Call Options: *[Investor Put]*
[Issuer Call]
[(further particulars specified below)]
13. Listing: *[Hong Kong/Other (specify)/None]* (For Notes to be listed on the *[SEHK]*, insert the expected effective listing date of the Notes)
14. Method of distribution: *[Syndicated/Non-syndicated]*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions *[Applicable/Not Applicable]*
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate[(s)] of Interest: *[●] per cent. per annum [payable [annually/semiannually/quarterly/monthly/other (specify)] in arrear]*
- (ii) Interest Payment Date(s): *[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”]/not adjusted]*
- (iii) Fixed Coupon Amount[(s)]: *[●] per Calculation Amount⁴*
- (iv) Broken Amount(s): *[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]*
- (v) Day Count Fraction: *[30/360/Actual/Actual (ICMA/ISDA)/other]*
- (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes: *[Not Applicable/give details]*

⁴ For Renminbi or Hong Kong dollar-denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: “Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi-denominated Fixed Rate Notes to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar-denominated Fixed Rate Notes, being rounded upwards.

16. Floating Rate Note Provisions	[Applicable/Not Applicable]
	<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Interest Period(s):	[●]
(ii) Specified Period:	[●]
	<i>(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert “Not Applicable”)</i>
(iii) Specified Interest Payment Dates:	[●]
	<i>(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert “Not Applicable”)</i>
(iv) First Interest Payment Date:	[●]
(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(vi) Additional Business Centre(s):	[Not Applicable/give details]
(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]):	[[Name] shall be the Calculation Agent (no need to specify if the Principal Paying Agent is to perform this function)]
(ix) Screen Rate Determination:	
• Reference Rate:	[For example, LIBOR or EURIBOR]
• Interest Determination Date(s):	[●]
• Relevant Screen Page:	[For example, Reuters LIBOR 01/EURIBOR 01]
• Relevant Time:	[For example, 11.00 a.m. London time/Brussels time]
• Linear Interpolation	[Applicable/Not Applicable]

• Relevant Financial Centre:	[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]
(x) ISDA Determination:	
• Floating Rate Option:	[●]
• Designated Maturity:	[●]
• Reset Date:	[●]
• Linear Interpolation	[Applicable/Not Applicable]
(xi) Margin(s):	[+/-][●] per cent. per annum
(xii) Minimum Rate of Interest:	[●] per cent. per annum
(xiii) Maximum Rate of Interest:	[●] per cent. per annum
(xiv) Day Count Fraction:	[●]
(xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17. Zero Coupon Note Provisions	[Applicable/Not Applicable]
	<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Accrual Yield:	[●] per cent. per annum
(ii) Reference Price:	[●]
(iii) Any other formula/basis of determining amount payable:	[Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [11(f)]]
18. Index-Linked Interest Note/other variable-linked interest Note Provisions	[Applicable/Not Applicable]
	<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Index/Formula/other variable:	[give or annex details]
(ii) Calculation Agent responsible for calculating the interest due:	[●]
(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
(iv) Interest Determination Date(s):	[●]

- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Interest or calculation period(s): [●]
- (vii) Specified Period: [●]
- (Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
- (viii) Specified Interest Payment Dates: [●]
- (Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
- (ix) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (x) Additional Business Centre(s): [●]
- (xi) Minimum Rate/Amount of Interest: [●] per cent. per annum
- (xii) Maximum Rate/Amount of Interest: [●] per cent. per annum
- (xiii) Day Count Fraction: [●]
- 19. Dual Currency Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

20. Call Option

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount [●] per Calculation Amount
- (iv) Notice period: [●]

21. Put Option

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) Notice period: [●]

22. Final Redemption Amount of each Note

[●] per Calculation Amount

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (i) Index/Formula/variable: [give or annex details]
- (ii) Calculation Agent responsible for calculating the Final Redemption Amount: [●]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable: [●]

- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) [Payment Date]: [●]
- (vii) Minimum Final Redemption Amount: [●] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [●] per Calculation Amount

23. Early Redemption Amount

- (i) Early Redemption Amount (Tax) per Calculation Amount payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in the Conditions) : *[Principal Amount/specify the Early Redemption Amount (Tax) if different]*
- (ii) Early Redemption Amount (Triggering Event) per Calculation Amount payable on redemption for triggering event and/or the method of calculating the same (if required or if different from that set out in the Conditions): *[101 per cent./specify the Early Redemption Amount (Triggering Event) if different]*
- (iii) The Redemption Amount per Calculation Amount payable on redemption of Zero Coupon Notes prior to the Maturity Date and/or the method of calculating the same (if different from that set out in the Conditions): *[Specify]*

24. Early Termination Amount

- Early Termination Amount (s) per Calculation Amount payable on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions) : *[Principal Amount/specify the Early Termination Amount if different]*

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25. Form of Notes: Bearer Notes:^{5,6}

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

⁵ Bearer Notes must be issued only pursuant to Regulation S outside the United States to non-U.S. persons.

⁶ Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]⁷

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

Registered Notes:

[Unrestricted Global Certificate exchangeable for unrestricted Individual Note Certificates in the limited circumstances described in the Unrestricted Global Certificate]

[and]

[Restricted Global Certificate exchangeable for Restricted Individual Note Certificates in the limited circumstances described in the Restricted Global Certificate]

26. Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/*give details Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 16(vi) and 18(x) relate*]
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, *give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: [Not Applicable/*give details*]
29. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
31. Consolidation provisions: The provisions in Condition 21 (*Further Issues*) [annexed to this Pricing Supplement] apply]
32. Any applicable currency disruption/fallback provisions: [Not Applicable/*give details*]

⁷ if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: “[EUR50,000]/[EUR100,000] and integral multiples of [EUR1,000] in excess thereof up to and including [EUR99,000]/[EUR199,000]”, the Temporary Global Note shall not be exchangeable on [●] days notice.

33. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

34. (i) If syndicated, names of Managers: [Not Applicable/give names]

(ii) Stabilising Manager(s) (if any): [Not Applicable/give name]

35. If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]

36. Total commission and concession: per cent. of the Aggregate Nominal Amount

37. U.S. Selling Restrictions: [Reg. S Category [2]];⁸

(In the case of Bearer Notes) — [C RULES / D RULES / TEFRA not applicable]⁹

(In the case of Registered Notes) — [Not] 144A Eligible

38. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

39. ISIN Code:

40. Common Code:

41. CUSIP:

42. CMU Instrument Number:

43. Any clearing system(s) other than Euroclear/Luxembourg, DTC and the CMU Service and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

44. Delivery: Delivery [against/free of] payment

45. Additional Paying Agent(s) (if any):

GENERAL

46. The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of , producing a sum of (for Notes not denominated in United States dollars): [Not Applicable/U.S.\$]

⁸ Bearer Notes must be issued under Reg. S.

⁹ TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU Service must be issued in compliance with the C Rules, unless at the time of issuance the CMU Service and the CMU Lodging Agent have procedures in place so as to enable compliance with the certification requirements under the D Rules.

47. [Ratings:

The Notes to be issued have been rated:

[[●]: [●]);

[[●]:[●]]; [and]

(each a “**Rating Agency**”).

If any Rating Agency shall not make a rating of the Notes publicly available, the Issuer shall select and substitute them with [●] or [●] and its successors.]

[USE OF PROCEEDS

Give details if different from the “*Use of Proceeds*” section in the Offering Circular.]

STABILISING

In connection with this issue, [insert name of Stabilising Manager] (the “**Stabilising Manager**”) (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the SEHK of the Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme of the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Tencent Holdings Limited

By:
Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Series of Notes represented by a Global Note, references in the Conditions of the Notes to “Noteholder” are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or, as the case may be, sub-custodian.

In relation to any Series of Notes represented by one or more Global Note Certificates, references in the Conditions of the Notes to “Noteholder” are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which (a) in the case of a Restricted Global Note Certificate held by or on behalf of DTC will be Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC and (b) in the case of any Unrestricted Global Note Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an “**Accountholder**”) must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Registered Note is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Registered Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU Service as entitled to receive payments in respect of Notes represented by such Global Note or Global Registered Note and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Registered Note must look solely to the CMU Lodging Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Registered Note.

Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Dealer or the Agents will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants

relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Transfer Restrictions*”, transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Principal Paying Agent.

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other, will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Note Certificates will be effected through the Principal Paying Agent, the DTC Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg account holders or between DTC participants are not affected.

For a further description of restrictions on the transfer of Notes, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

Upon the issue of a Restricted Global Note Certificate to be held by or on behalf of DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the account of DTC participants. Ownership of beneficial interests in such Global Note Certificate will be held through participants of DTC, including the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such Global Note Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes represented by a Global Note Certificate held by or on behalf of DTC (including, without limitation, the presentation of such Global Note Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in such Global Note Certificate are

credited, and only in respect of such portion of the aggregate nominal amount of such Global Note Certificate as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the relevant Global Note Certificate for Individual Note Certificates (which will bear the relevant legends set out in “*Transfer Restrictions*”).

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and account holders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Registrar, the Dealer or the Agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with DTC, Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note or a Global Note Certificate, “Payment Business Day” shall be: (x) if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or (y) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU Service) will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the “**record date**”), where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January. In respect of a Global Note or Global Certificate held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service as at the business day before the date for payment) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

Exercise of put options: In order to exercise the options contained in Condition 10(e) (*Redemption at the option of the Noteholders*) and 10(f) (*Redemption for Triggering Event*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of the CMU Service, DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of the CMU Service, DTC, Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (a) Euroclear and/or Clearstream, Luxembourg and/or DTC or any other clearing system (except as provided in (b) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (b) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note or Global Certificate.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth our debt and capitalisation as of 31 December 2013.

This table should be read in conjunction with “*Use of Proceeds*”, the “*Selected Consolidated Financial and Other Data*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the consolidated financial information included elsewhere in this Offering Circular.

	As of 31 December 2013	
	(RMB in millions)	(US\$ in millions) ⁽¹⁾
Cash and cash equivalents	20,228	3,341
Current liabilities:		
Borrowings	2,589	428
Non-current liabilities:		
Long-term notes payable	9,141	1,510
Borrowings	3,323	549
	12,464	2,059
Total debt	15,053	2,487
Capital and reserves attributable to equity shareholders of the Company		
Share capital	—	—
Share premium	2,846	470
Shares held for share award schemes	(871)	(144)
Other reserves	3,746	619
Retained earnings	52,224	8,627
	57,945	9,572
Non-controlling interests	518	85
Total equity	58,463	9,657
Total capitalisation ⁽²⁾	73,516	12,144

Notes:

(1) All items in this table have been translated from Renminbi to US\$ at the rate of RMB6.0537 to US\$1.00.

(2) Total capitalisation represents the sum of the total debt under current and non-current liabilities and total equity.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 have been derived from our audited consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 included elsewhere in this Offering Circular.

The summary financial data below should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the audited consolidated financial statements included elsewhere or incorporated by reference in this Offering Circular. The financial and operating information for the year ended 31 December 2013 is not necessarily indicative of the results that may be expected for the year ending 31 December 2014.

SELECTED CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2011, 2012 AND 2013

	Year ended 31 December			
	2011	2012	2013	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Revenues:				
VAS ⁽¹⁾	26,314	35,718	44,985	7,431
Online advertising	1,992	3,382	5,034	832
eCommerce transactions ⁽²⁾	—	4,428	9,796	1,618
Others	190	366	622	102
Total revenues	28,496	43,894	60,437	9,983
Cost of revenues	(9,928)	(18,207)	(27,778)	(4,588)
Gross profit	18,568	25,687	32,659	5,395
Interest income	469	836	1,314	217
Other gains/(losses), net	421	(284)	904	150
Selling and marketing expenses.....	(1,921)	(2,994)	(5,695)	(941)
General and administrative expenses	(5,283)	(7,766)	(9,988)	(1,650)
Operating profit	12,254	15,479	19,194	3,171
Finance income/(costs), net.....	36	(348)	(84)	(14)
Share of (losses)/profit of associates.....	(25)	(54)	213	35
Share of losses of joint ventures	(166)	(26)	(42)	(7)
Profit before income tax	12,099	15,051	19,281	3,185
Income tax expense.....	(1,874)	(2,266)	(3,718)	(614)
Profit for the year	10,225	12,785	15,563	2,571

Note:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenue was generated from eCommerce transactions in the periods prior to 1 January 2012.

**SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF
31 DECEMBER 2011, 2012 AND 2013**

	As of 31 December			
	2011	2012	2013	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Cash and cash equivalents.....	12,612	13,383	20,228	3,341
Restricted cash ⁽¹⁾	4,943	2,520	4,131	682
Term deposits	13,716	13,806	19,623	3,241
Total current assets	35,503	36,509	53,686	8,868
Term deposits	—	10,892	11,420	1,886
Total non-current assets	21,301	38,747	53,549	8,846
Total assets	56,804	75,256	107,235	17,714
Borrowings	7,999	1,077	2,589	428
Total current liabilities	21,183	20,665	33,267	5,495
Long-term notes payable	3,733	7,517	9,141	1,510
Borrowings	—	2,106	3,323	549
Total non-current liabilities	6,533	12,443	15,505	2,562
Total liabilities	27,716	33,108	48,772	8,057
Total equity	29,088	42,148	58,463	9,657
Total liabilities and equity	56,804	75,256	107,235	17,714

Note:

- (1) Includes, among others, restricted cash pledged for secured bank borrowings which amounted to RMB3,072 million, Nil and Nil as of 31 December 2011, 2012 and 2013, respectively.

**SELECTED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2011, 2012 AND 2013**

	Year ended 31 December			
	2011	2012	2013	
	(Audited)	(Audited)	(Audited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Net cash flows generated from operating activities.....	13,358	19,429	24,374	4,026
Net cash flows used in investing activities ⁽¹⁾	(15,355)	(16,270)	(19,134)	(3,160)
Net cash flows generated from/(used in) financing activities ⁽²⁾	4,373	(2,386)	1,708	282
Net increase in cash and cash equivalents	2,376	773	6,948	1,148
Cash and cash equivalents at beginning of year.....	10,408	12,612	13,383	2,211
Exchange losses on cash and cash equivalents	(172)	(2)	(103)	(18)
Cash and cash equivalents at end of year	<u>12,612</u>	<u>13,383</u>	<u>20,228</u>	<u>3,341</u>

Notes:

- (1) Includes, among others, payment for capital expenditures and game and other content licences. Payment for capital expenditure represents the amount paid for purchase of fixed assets, construction in progress and investment properties, payments for land use rights and payments for intangible assets (excluding game and other content licences), which amounted to RMB4,210 million, RMB4,180 million and RMB5,124 million (US\$846 million) for the years ended 31 December 2011, 2012 and 2013, respectively.
- (2) Includes, among others, dividends paid to the Company's shareholders and non-controlling interest owners, which amounted to RMB895 million, RMB1,225 million and RMB1,541 million (US\$255 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

OTHER FINANCIAL DATA

	Year ended 31 December			
	2011	2012	2013	
	(RMB in millions, except for %)	(RMB in millions, except for %)	(RMB in millions, except for %)	(US\$ in millions, except for %)
EBITDA ⁽¹⁾	13,298	17,540	20,566	3,397
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734	3,590
Adjusted EBITDA margin ⁽²⁾	49%	42%	36%	36%
Net Cash ⁽³⁾	17,668	27,381	36,218	5,981

	As of and for the year ended 31 December		
	2011	2012	2013
	(RMB in millions, except for ratios)		
Adjusted EBITDA ⁽¹⁾	14,031	18,445	21,734
Interest Expense	73	327	394
Ratios:			
Adjusted EBITDA ⁽¹⁾ to Interest Expense	192x	56x	55x
Total Debt ⁽⁴⁾ to Adjusted EBITDA ⁽¹⁾	0.84x	0.58x	0.69x

Notes:

- (1) EBITDA for any year consists of operating profit less interest income, and plus other losses/(gains), net, depreciation of fixed assets and investment properties and amortisation of intangible assets. Other losses/(gains), net consist primarily of the gains on disposal/deemed disposal of investees, dividend income, subsidies and tax rebates, donation to the Tencent Charity Fund, losses from derivative financial instruments and impairment provision for investees. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses. EBITDA and Adjusted EBITDA are not standard measures under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to cash flows, net income or any other measure of performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA and Adjusted EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA and Adjusted EBITDA because we believe they are a useful supplement to cash flows data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. EBITDA and Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA or Adjusted EBITDA to the EBITDA or Adjusted EBITDA presented by other companies because not all companies use the same definition.
- (2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by the revenue for the relevant year.

- (3) Net cash represents year-end balance and is calculated as cash and cash equivalents, term deposits and restricted cash pledged for secured bank borrowings minus total debt.
- (4) Total debt consists of our short-term borrowings, which comprise our borrowings accounted for as RMB borrowings (both secured and unsecured), our U.S. dollar borrowings (which are all unsecured), our U.S. dollar-denominated unsecured bonds (which were issued in March 2011 and matured and were fully paid off in March 2012), our long-term borrowings, which comprise our borrowings accounted for as offshore U.S. dollar borrowings (which are all unsecured), the 2015 Notes, the 2016 Notes and the 2018 Notes.

The following table reconciles our operating profit under IFRS to our EBITDA and Adjusted EBITDA for the years indicated.

	Year ended 31 December			
	2011	2012	2013	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
Operating profit	12,254	15,479	19,194	3,171
Adjustments:				
Interest income	(469)	(836)	(1,314)	(217)
Other (gains)/losses, net.....	(421)	284	(904)	(150)
Depreciation of fixed assets and investment properties.....	1,208	1,880	2,484	410
Amortisation of intangible assets	726	733	1,106	183
EBITDA	13,298	17,540	20,566	3,397
Equity-settled share-based compensation expenses	733	905	1,168	193
Adjusted EBITDA	14,031	18,445	21,734	3,590

OPERATING DATA

The following data sets forth certain operating statistics relating to our Internet platforms and value-added services as of the dates and for the periods presented:

	As of 31 December		
	2011	2012	2013
	(in millions)		
MAU of QQ ⁽¹⁾	721.0	798.2	808.0
Combined MAU of Weixin and WeChat ⁽²⁾	—	160.8	355.0
MAU of Qzone ⁽³⁾	552.1	602.7	625.2
Fee-based VAS registered subscriptions.....	108.6	104.5	88.6

Notes:

- (1) MAU of QQ figures denote the total number of user accounts that logged in at least once during the last calendar month prior to the relevant date.
- (2) Combined MAU of Weixin and WeChat figures denote the total number of user accounts that sent out one or more messages via Weixin and WeChat or conducted other active operations on Weixin and WeChat, such as logging into Game Center or updating Moments, at least once during the last calendar month prior to the relevant date. The MAU of Weixin and WeChat is not available for the year ended 31 December 2011.

- (3) MAU of Qzone figures denote the total number of user accounts that logged in Qzone at least twice during the last calendar month prior to the relevant date.

	For the three months ended 31 December		
	2011	2012	2013
	(in millions)		
PCU of QQ ⁽¹⁾	152.7	176.4	180.3
PCU of QQ Game Platform ⁽²⁾	8.4	8.8	8.5

Notes:

- (1) PCU of QQ figures denote the highest number of simultaneous online user accounts of our QQ platform during the period.
- (2) PCU of QQ Game Platform figures denote the highest number of simultaneous online user accounts of our QQ Game Platform during the period.

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

The following is a discussion of our financial condition and results of operations as of and for the years ended 31 December 2011, 2012 and 2013 and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

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

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country with 808.0 million MAU of QQ and 355.0 million combined MAU of Weixin and WeChat as of 31 December 2013. We are the leading IM provider in the PRC with QQ having a market share of 83.7% for PC IM services, while Mobile QQ and Weixin have a market share of 41.6% and 54.5% for Mobile IM services respectively, as measured by monthly time spent by users as of December 2013, according to iResearch. We also provide diversified social networking and social media services including Qzone and Tencent Microblog. We are the largest SNS provider with our Qzone and Tencent Microblog together having a market share of 72.7% in the PRC as measured by monthly time spent by users in December 2013, according to iResearch. QQ.com had 133.9 million daily average unique visitors in December 2013, which ranked first among all online portals in the PRC, according to iResearch, and No. 7 website in the world in user traffic as of March 2014 according to Alexa.com. Leveraging our social communications platform and our massive user base, we aim to become the hub for fulfilling Internet users' online lifestyle needs, encompassing communication, social networks, entertainment, media content and eCommerce. The breadth of our highly popular services cover: QQ IM, Qzone, QQ Game Platform, QQ.com, Tencent Video, eCommerce services, mobile news and our mobile social communication platforms, Weixin and WeChat. We were founded in November 1998 and we launched our QQ IM service in February 1999. Currently, we have four lines of business:

- **Value-added Services** — Our VAS business mainly consists of online games and social networks. We offer a diversified game portfolio ranging from PC client games like MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including QQ Membership, Qzone and Tencent Microblog, etc. We monetise our VAS business primarily via monthly subscriptions and item-based sales within PC and mobile games or other applications.
- **Online Advertising** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are delivered primarily on our SNS platforms and other platforms.
- **eCommerce Transactions** — Our eCommerce transactions business involve B2C eCommerce transactions, sales of merchandise and services on our B2C marketplaces, C2C marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce.
- **Others** — Our other services include trademark licensing, software development services and software sales.

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

We went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2013, our total revenues was RMB60,437 million (US\$9,983 million) and our profit for the year was RMB15,563 million (US\$2,571 million), an increase of 38% and 22%, respectively, over the year ended 31 December 2012. As of 31 December 2013, our cash and cash equivalents and term deposits amounted to RMB51,271 million (US\$8,468 million).

Recent Developments

In March 2014, the Group entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com (the “**JD.com Pre-IPO Subscription**”), pursuant to which the Group purchased 351,678,637 ordinary shares of JD.com, representing 15% of the outstanding JD.com ordinary shares on a fully diluted pre-IPO basis immediately after the completion of the JD.com Pre-IPO Subscription for total consideration consisting of a net cash payment, certain eCommerce related businesses and assets of the Group and a 9.9% equity interest in Shanghai Icsen with a call option granted to JD.com to acquire the remaining equity interests held by the Group in Shanghai Icsen at the higher of RMB800 million and the then fair value of the interests on or before 10 March 2017, subject to compliance with all applicable laws. In addition, the Group entered into a strategic cooperation agreement with JD.com. The Group also entered into an IPO share subscription agreement to agree to subscribe for a further 5% of the outstanding JD.com ordinary shares on a fully diluted post-IPO basis immediately after the consummation of the JD.com’s IPO. The Group accounted for the investment in JD.com as an investment in associate. The JD.com Pre-IPO subscription closed on 10 March 2014. See “*Business — Recent Developments*”.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Ability to increase our user base and monetise our user traffic

The growth of our business and revenues depends on our ability to maintain and expand our highly engaged user community. As of 31 December 2013, MAU of QQ reached 808.0 million, an increase of 1.2% from 798.2 million as of 31 December 2012 and an increase of 12.1% from 721.0 million as of 31 December 2011. Combined MAU of Weixin and WeChat reached 355.0 million as of 31 December 2013, an increase of 120.8% from 160.8 million as of 31 December 2012.

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

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

For the years ended 31 December 2011, 2012 and 2013, our VAS revenues were RMB26,314 million, RMB35,718 million and RMB44,985 million (US\$7,431 million), respectively. Cross-selling of our fee-based services and products to our existing VAS users is expected to continue to be a significant driver of our future revenue and profit growth.

Ability to maintain our market position and brand recognition

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

Ability to develop, acquire and licence content and applications

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

Ability to maintain relationships with strategic partners

We derive value and benefits from our co-operative arrangements with a number of telecommunications operators, online game developers, content providers, application developers, device manufacturers, merchants, suppliers and advertising agencies. A portion of the fees for our VAS are collected through the networks of China Mobile, China Unicom and China Telecom through revenues-sharing arrangements that are periodically renewed. We have adopted an open platform strategy and many of our platforms, including Weixin, Qzone, Tencent Microblog, and QQ Game Platform, support third-party applications. We also have arrangements with third-party content providers and advertising agencies. The fees and costs paid for content and advertising agency fees to third parties, plus Mobile and Telecom Charges (as defined below) and bandwidth and server custody fees, were RMB7,471 million, RMB9,996 million and RMB12,730 million (US\$2,103 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Our ability to maintain existing and develop and foster new, strategic partnerships will be significant factors to enable us to meet the increasingly complex demands of our users and customers, expand our distribution channels and diversify our revenue streams.

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

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

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

PRC regulations affecting the Internet and telecommunications industries

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

In addition, because certain of our PRC subsidiaries and consolidated controlled entities qualified as “High and New Technology Enterprises” received preferential tax treatment or exemptions as of 31 December 2013, any adverse changes in the status of such preferential tax treatment or exemptions would increase the costs of our business.

Macroeconomic conditions in the markets where we operate

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

The continuing maturation of the PRC economy has been attended by a gradual slowdown in economic growth. The World Bank forecasts that the PRC economy will grow 7.7% in 2014. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about potential overinvestment and overleveraging in the PRC economy, the Eurozone sovereign debt crisis, and concerns about a renewed global recession similar to the economic crisis in 2008, may impact the growth of the PRC economy and PRC-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, it is unclear how PRC economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

Recruitment, compensation and retention of employees

The performance of our employees has a significant effect on our business. For example, our senior management team uses its experience and understanding of the PRC Internet and telecommunications

industries, local user preferences and key industry players to formulate future growth strategies and respond to industry changes. Skilled research and development personnel are also critical to our development of new services and products (such as new online games) and leverage upon new technologies and infrastructures. As our business continues to grow, we continue to expand our workforce. The number of our full-time employees was 17,446, 24,160 and 27,492 as of 31 December 2011, 2012 and 2013, respectively. Consequently, as our workforce expands we incur additional staff costs as costs of revenues to our business. Our total remuneration costs (including capitalised remuneration cost) were RMB4,879 million, RMB7,724 million and RMB10,364 million (US\$1,712 million) for the years ended 31 December 2011, 2012 and 2013, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programs such as training, bonus and share options programs, which would further affect our staff costs.

BASIS OF PRESENTATION

During the periods presented in the consolidated financial statements, we derived substantially all of our revenues under a series of contractual arrangements between our WFOEs and our consolidated affiliated entities. These contractual arrangements are designed to provide us and the WFOEs with effective control over, and (to the extent permitted by PRC law) the right to acquire the equity interests in and assets of our consolidated affiliated entities. Based on such contractual arrangements, we have concluded that it is appropriate to consolidate the financial statements of our consolidated affiliated entities, notwithstanding the lack of direct share ownership, because, in substance, the contractual arrangements transfer the economic risks and benefits of these consolidated affiliated entities to us. Our consolidated affiliated entities include, among others, Tencent Computer, Shiji Kaixuan, Beijing Emark Information Technology Company Limited, Nanjing Wang Dian Technology Company Limited, Beijing BIZCOM Technology Company Limited, Beijing Starsinhand Technology Company Limited, Shenzhen Shijitianyou Technology Company Limited and Guangzhou Yunxun Technology Company Limited. See *“Risk Factors—Risks Related to our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating our services in the PRC do not comply with PRC governmental restrictions on foreign investment in value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations”* and *“Risk Factors—Risks Related to our Corporate Structure—The contractual arrangements with the consolidated affiliated entities and their shareholders, which relate to critical aspects of our operations may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law”*.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We generate our revenues primarily from four lines of business:

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

Our revenues was RMB28,496 million, RMB43,894 million and RMB60,437 million (US\$9,983 million) for the years ended 31 December 2011, 2012 and 2013, respectively. The following table sets forth our revenues by line of business for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	(US\$ in millions) % of Total Revenues
Revenues:						
VAS ⁽¹⁾	26,314	92	35,718	81	44,985	7,431 75
Online advertising	1,992	7	3,382	8	5,034	832 8
eCommerce transactions ⁽²⁾	—	—	4,428	10	9,796	1,618 16
Others	190	1	366	1	622	102 1
Total revenues	28,496	100	43,894	100	60,437	9,983 100

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues was generated from eCommerce transactions in periods prior to 1 January 2012.

VAS

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

Revenues from VAS was RMB26,314 million, RMB35,718 million and RMB44,985 million (US\$7,431 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Our online game business achieved healthy growth in revenues, thanks to the strong performance of our major PC game titles in China and League of Legends in international markets, and the launch of new PC game titles. Our social networks revenues grew due to the increase in item-based sales within applications on our platforms.

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

Online advertising

Online advertising revenues are primarily derived from fees for selling brand display advertising inventory on our online video, IM clients, portals and other platforms, and performance display

advertising inventory on our SNS platforms and other platforms. For brand display advertising, the majority of our fees are determined based on the length of time or the number of impressions of the advertisement and the location of the advertisement. For performance display advertising, our fees are mainly determined based on the number of clicks generated from the advertisement.

Revenues from online advertising was RMB1,992 million, RMB3,382 million and RMB5,034 million (US\$832 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Our online advertising business benefited from the significant growth in performance-based social advertising and online video advertising, as well as solid growth in traditional brand advertising.

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

eCommerce transactions

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

Revenues for eCommerce transactions was insignificant in 2011, and RMB4,428 million and RMB9,796 million (US\$1,618 million) for the years ended 31 December 2012 and 2013, respectively. We achieved significant growth in principal eCommerce transactions revenues under a highly competitive market environment as we expanded our product category and geographic coverage. Fees generated from transactions on our marketplaces also increased.

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

Others

Revenues from others is primarily from the provision of trademark licensing, software development services and software sales. Revenues from others was RMB190 million, RMB366 million and RMB622 million (US\$102 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

Cost of revenues

Our cost of revenues was RMB9,928 million, RMB18,207 million and RMB27,778 million (US\$4,588 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

Cost of revenues consist of the direct costs for operating and offering our services and products, which consist primarily of the cost of merchandise sold for eCommerce transactions where we acted as a principal, sharing and content costs (mainly including content costs and agency fees), telecommunications operators’ portion of revenues for the value-added services provided over their network platforms, bandwidth and server custody fees, depreciation of our equipment and other direct costs. Staff costs that directly relate to the provision of our services and products are also included in cost of revenues.

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

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

Telecommunications operators' portion of revenues for the value-added services provided over their network platforms includes the commission based on certain percentages of the service fees collected by them and imbalance fees. Imbalance fees are payable by us for the excess of the number of messages sent from our Internet platforms to mobile phones over the number of messages sent from mobile phones to our Internet platforms.

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

Interest income

Interest income primarily consists of interest income from bank deposits including current deposits and term deposits.

Other gains/(losses), net

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

Selling and marketing expenses

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

General and administrative expenses

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

Finance income/(costs), net

Finance income/(costs), net include interest expenses primarily arising from our borrowings, long-term notes payable and our foreign currency exchange gains or losses.

Income tax expense

We were not subject to any income tax in the Cayman Islands or the BVI in 2011, 2012 and 2013. We did not make any United States corporate income tax provision or Hong Kong profits tax provision

in 2011. For the years ended 31 December 2012 and 2013, U.S. corporate income tax provision were made for entities within our Group that are incorporated in the United States on the estimated assessable profits at the rate of 36% and Hong Kong profits tax provision was provided on the estimated assessable profits at the rate of 16.5%.

Our revenues are primarily derived from our entities incorporated in the PRC. Our entities incorporated in the PRC are subject to income tax in the PRC. Our income tax expense was RMB1,874 million, RMB2,266 million and RMB3,718 million (US\$614 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

According to the 2008 CIT Law, effective on 1 January 2008, there is a 25% corporate income tax for domestic and foreign-invested enterprises on their worldwide income. However, the State Council provided certain transitional phase-out rules, which provided for a transition period to enterprises that had preferential tax treatment prior to the promulgation of the 2008 CIT Law. In particular, enterprises that were incorporated prior to 16 March 2007 and entitled to the exemptions or reduced income tax rates for fixed terms under the old foreign invested enterprise tax law would continue to enjoy such treatment until the expiry of such fixed terms provided that, for the enterprises whose preferential tax treatments have not commenced due to lack of taxable profit, the fixed preferential terms shall commence from the year of 2008. Under the 2008 CIT Law and its implementation rules, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in 2011 and 2012 were further reduced to 10%.

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

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

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

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

Revenue Recognition

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

VAS

Revenues from VAS is derived principally from the provision of online games, community VAS and item-based sales within applications on our PC and mobile platforms.

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

In collecting the Internet and Mobile Service Fees on our behalf, these telecommunications operators are entitled to a fixed commission, which is calculated based on agreed percentages of the Internet and Mobile Service Fees received/receivable by them, plus, in certain cases, applicable imbalance fees (collectively defined as the “**Mobile and Telecom Charges**”). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to us.

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

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

In relation to the sharing income derived from third-party games or applications which are available on our platforms and hosted by the developers, we recognise the related revenues on a related net basis because we act as an agent in such arrangements. We defer the related revenues over an estimated period as there is an implicit obligation for us to maintain and allow the users’ access to the games or applications through our platforms.

Online advertising

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

For brand display advertising contracts based on the actual time period that the advertisements are displayed on our websites, IM clients or other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed. In addition, revenues from some other brand display

advertising contracts are recognised based on the number of impressions of the advertisements. For performance display advertising, the pricing of the advertising inventory is determined through a bidding system and the revenues are recognised based on the number of clicks generated from the advertisement.

eCommerce transactions

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

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

Research and Development Expenses

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

Share-based Compensation Expenses

We have adopted several share option schemes and share award schemes as part of our compensation benefits to employees. The fair value of the employee services received in exchange for the grant of options and awarded shares is recognised as an expense and credited to share premium. For grants of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted by using an option-pricing model, the Black-Scholes valuation model, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. As we use the Black-Scholes valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period, significant judgment on parameters, such as risk-free rate, dividend yield and expected volatility, is required to be made by the Directors in applying the Black-Scholes valuation model. The fair value of options granted determined using the Black-Scholes valuation model was approximately HK\$63 million and HK\$15 million for the years ended 31 December 2011 and 2012, respectively. There was no option granted to employees in 2013.

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

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

Income Taxes

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

RESULTS OF OPERATIONS

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

Revenues. Revenues increased by RMB16,543 million, or 38%, from RMB43,894 million in 2012 to RMB60,437 million (US\$9,983 million) in 2013.

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

	Years ended 31 December				
	2012		2013		
	Amount	% of total revenues	Amount	% of total revenues	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)	
VAS ⁽¹⁾	35,718	81	44,985	7,431	75
Online advertising.....	3,382	8	5,034	832	8
eCommerce transactions.....	4,428	10	9,796	1,618	16
Others.....	366	1	622	102	1
Total revenues	43,894	100	60,437	9,983	100

Note:

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

Revenues from VAS increased by RMB9,267 million, or 26%, from RMB35,718 million in 2012 to RMB44,985 million (US\$7,431 million) in 2013. Online games revenues grew by RMB8,149 million, or 34%, from RMB23,817 million in 2012 to RMB31,966 million (US\$5,280 million) in 2013. The increase primarily reflected growth in our major PC game titles in China and League of Legends in international markets as well as contributions from the launch of new PC game titles. Revenues from our social networks increased by RMB1,118 million, or 9% from RMB11,901 million in 2012 to RMB13,019 million (US\$2,151 million) in 2013. This was primarily driven by growth in item-based sales within applications on our open platforms, partly offset by a decline in subscription revenues. Revenues from our online games and social networks also benefited from initial contributions from smart phone games integrated with Mobile QQ and Weixin. As a percentage of total revenues, revenues from VAS decreased from 81% in 2012 to 75% in 2013.

Revenues from online advertising increased by RMB1,652 million, or 49%, from RMB3,382 million in 2012 to RMB5,034 million (US\$832 million) in 2013. This mainly reflected significant growth in revenues from performance-based social advertising and online video advertising. Revenues from traditional brand advertising also increased, though at a more moderate rate. Revenues from search advertising declined as we transferred our search business to Sogou in September 2013. As a percentage of total revenues, revenues from online advertising remained at 8% in 2013 as compared to 2012.

Revenues from eCommerce transactions increased by RMB5,368 million, or 121%, from RMB4,428 million in 2012 to RMB9,796 million (US\$1,618 million) in 2013. This was primarily driven by a significant increase in principal eCommerce transactions volume. Fees generated from transactions on our marketplaces also increased. As a percentage of total revenues, revenues from eCommerce transactions increased from 10% in 2012 to 16% in 2013.

Revenues from others increased by RMB256 million, or 70%, from RMB366 million in 2012 to RMB622 million (US\$102 million) in 2013.

Cost of revenues. Cost of revenues increased by RMB9,571 million, or 53%, from RMB18,207 million in 2012 to RMB27,778 million (US\$4,588 million) in 2013. This mainly reflected increases in cost of merchandise sold, as well as sharing and content costs. As a percentage of revenues, cost of revenues increased to 46% for the year ended 31 December 2013 from 41% for the year ended 31 December 2012, mainly due to a revenue mix shift towards the eCommerce transactions business.

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

	Years ended 31 December				
	2012		2013		
	Amount	% of segment revenues	Amount	% of segment revenues	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)	
VAS ⁽¹⁾	12,064	34	15,384	2,541	34
Online advertising	1,733	51	2,777	459	55
eCommerce transactions	4,192	95	9,239	1,526	94
Others	218	60	378	62	61
Total cost of revenues ...	18,207		27,778	4,588	

Note:

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

Cost of revenues for VAS increased by RMB3,320 million, or 28%, from RMB12,064 million in 2012 to RMB15,384 million (US\$2,541 million) in 2013. This mainly reflected an increase in sharing and content costs due to the growth in our business. Bandwidth and server custody fees as well as staff costs also increased. As a percentage of revenues generated from the same segment, cost of revenues remained at 34% in 2013 as compared to 2012.

Cost of revenues for online advertising increased by RMB1,044 million, or 60%, from RMB1,733 million in 2012 to RMB2,777 million (US\$459 million) in 2013. The increase partly arose from a periodic review of user video viewing patterns, prompting our decision to accelerate the amortisation

of video content costs commencing in the fourth quarter of 2013, which resulted in a true up for the shortfall in such amortisation for previous years. This also reflected higher bandwidth and server custody fees as well as commissions payable to advertising agencies. Excluding the impact of the acceleration of video content costs amortisation and the related true up, which amounted to RMB317 million on aggregate, cost of revenues for our online advertising business would have increased by 42%. As a percentage of revenues generated from the same segment, cost of revenues increased from 51% in 2012 to 55% in 2013, primarily due to the impact of the acceleration of video content costs amortisation and the related true up.

Cost of revenues for eCommerce transactions increased by RMB5,047 million, or 120%, from RMB4,192 million in 2012 to RMB9,239 million (US\$1,526 million) in 2013. This mainly reflected an increase in cost of merchandise sold due to growth in our principal eCommerce transactions volume. As a percentage of revenues generated from the same segment, cost of revenues decreased from 95% in 2012 to 94% in 2013.

Cost of revenues for others increased by RMB160 million, or 73%, from RMB218 million in 2012 to RMB378 million (US\$62 million) in 2013.

Gross profit. Gross profit increased by RMB6,972 million, or 27%, from RMB25,687 million in 2012 to RMB32,659 million (US\$5,395 million) in 2013. Our gross margin was 54% in 2013 as compared to 59% in 2012.

Interest income. Interest income increased by RMB478 million, or 57%, from RMB836 million in 2012 to RMB1,314 million (US\$217 million) in 2013.

Other gains/(losses), net. We recorded other gains, net of RMB904 million (US\$150 million) in 2013, compared to other losses, net of RMB284 million in 2012. The change primarily reflected a decrease in impairment provision for selected investees, as well as increases in disposal gains related to certain investees and subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by RMB2,701 million, or 90%, from RMB2,994 million in 2012 to RMB5,695 million (US\$941 million) in 2013. This mainly reflected a step up in marketing activities related to WeChat in international markets and an increase in advertising spending on online games, mobile utilities and eCommerce platforms. Staff costs also increased as our business expanded. As a percentage of total revenues, selling and marketing expenses increased from 7% in 2012 to 9% in 2013.

General and administrative expenses. General and administrative expenses increased by RMB2,222 million, or 29%, from RMB7,766 million in 2012 to RMB9,988 million (US\$1,650 million) in 2013. This primarily reflected increases in research and development expenses, staff costs (including share-based compensation) as well as other administrative expenses, such as office-related costs. As a percentage of total revenues, general and administrative expenses decreased from 18% in 2012 to 17% in 2013.

Operating profit. Operating profit increased by RMB3,715 million, or 24%, from RMB15,479 million in 2012 to RMB19,194 million (US\$3,171 million) in 2013.

Finance costs, net. We recorded finance costs, net of RMB84 million (US\$14 million) in 2013 compared to finance costs, net of RMB348 million in 2012. This mainly reflected the recognition of foreign exchange gains on our foreign currency denominated debts due to exchange rate movements in the year ended 31 December 2013, compared to foreign exchange losses in 2012.

Profit before income tax. Profit before income tax increased by RMB4,230 million, or 28%, from RMB15,051 million in 2012 to RMB19,281 million (US\$3,185 million) in 2013.

Income tax expense. Income tax expense increased by RMB1,452 million, or 64%, from RMB2,266 million in 2012 to RMB3,718 million (US\$614 million) in 2013. This primarily reflected higher profit before income tax and the absence of a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate for 2011 and 2012. The increase was partly offset by a decrease in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB2,778 million, or 22%, from RMB12,785 million in 2012 to RMB15,563 million (US\$2,571 million) in 2013. Our profit margin decreased from 29% in 2012 to 26% in 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenues. Revenues increased by RMB15,398 million, or 54%, from RMB28,496 million in 2011 to RMB43,894 million in 2012.

The following table sets forth our revenues by lines of business for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2011		2012	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS ⁽¹⁾	26,314	92	35,718	81
Online advertising.....	1,992	7	3,382	8
eCommerce transactions ⁽²⁾	—	—	4,428	10
Others.....	190	1	366	1
Total revenues	28,496	100	43,894	100

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues were generated from eCommerce transactions in periods prior to 1 January 2012.

Revenues from VAS increased by RMB9,404 million, or 36%, from RMB26,314 million in 2011 to RMB 35,718 million in 2012. Online games revenues grew by RMB7,275 million, or 44% from RMB16,542 million in 2011 to RMB23,817 million in 2012. This was primarily driven by growth in our major titles, and contributions from new titles launched in 2012, and increased contributions from international markets. Revenues from our social networks increased by RMB2,129 million, or 22% from RMB9,772 million in 2011 to RMB11,901 million in 2012, mainly attributable to growth in our open platforms. Revenues from our open platforms grew primarily due to a significant increase in usage of third-party applications, and consequently sales of virtual items within such applications. As a percentage of total revenues, revenues from VAS decreased from 92% in 2011 to 81% in 2012.

Revenues from online advertising increased by RMB1,390 million, or 70%, from RMB1,992 million in 2011 to RMB3,382 million in 2012. This mainly reflected new revenue contribution from performance-based social advertising and growth in video advertising. Traditional brand display advertising and search advertising also contributed to our business growth. As a percentage of total revenues, revenues from online advertising increased from 7% in 2011 to 8% in 2012.

Revenues from eCommerce transactions was RMB4,428 million for the year ended 31 December 2012. As a percentage of total revenues, revenues from eCommerce transactions accounted for 10% for the year ended 31 December 2012.

Revenues from others increased by RMB176 million, or 93%, from RMB190 million in 2011 to RMB366 million in 2012.

Cost of revenues. Cost of revenues increased by RMB8,279 million, or 83%, from RMB9,928 million in 2011 to RMB18,207 million in 2012. This mainly reflected the recognition of costs of merchandise sold relating to our eCommerce transactions business, as well as increases in sharing and content costs and staff costs. As a percentage of revenues, cost of revenues increased from 35% in 2011 to 41% in 2012.

The following table sets forth our cost of revenues by lines of business for the years ended 31 December 2011 and 2012:

	Year ended 31 December			
	2011		2012	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS ⁽¹⁾	8,893	34	12,064	34
Online advertising.....	795	40	1,733	51
eCommerce transactions ⁽²⁾	—	—	4,192	95
Others.....	240	126	218	60
Total cost of revenues	9,928		18,207	

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.
- (2) We began treating eCommerce transactions business as a separate reportable segment on 1 January 2012. No comparative figures for the comparative periods were presented since an insignificant amount of revenues were generated from eCommerce transactions in periods prior to 1 January 2012.

Cost of revenues for VAS increased by RMB3,171 million, or 36%, from RMB8,893 million in 2011 to RMB12,064 million in 2012. This was mainly driven by increased sharing and content costs for licenced game titles. Staff costs as well as bandwidth and server custody fees also increased as our business scale grew. As a percentage of revenues generated from the same segment, cost of revenues was 34% in 2012, broadly stable compared to 2011.

Cost of revenues for online advertising increased by RMB938 million, or 118%, from RMB795 million in 2011 to RMB1,733 million in 2012. This mainly reflected the allocation of a significant proportion of costs related to our online video platform, which include content costs as well as bandwidth and

server custody fees, to the online advertising segment since the fourth quarter of 2011. It also reflected increases in staff costs, sharing and content costs for our search advertising business and commissions payable to advertising agencies. As a percentage of revenues generated from the same segment, cost of revenues increased from 40% in 2011 to 51% in 2012.

Cost of revenues for eCommerce transactions was RMB4,192 million for the year ended 31 December 2012.

Cost of revenues for others in 2012 decreased by RMB22 million, or 9%, from RMB240 million in 2011 to RMB218 million in 2012.

Gross profit. Gross profit increased by RMB7,119 million, or 38%, from RMB18,568 million in 2011 to RMB25,687 million in 2012. Our gross margin was 59% in 2012 as compared to 65% in 2011.

Interest income. Interest income increased by RMB367 million, or 78%, from RMB469 million in 2011 to RMB836 million in 2012.

Other (losses)/gains, net. We recorded other losses, net of RMB284 million in 2012, compared to other gains, net of RMB421 million in 2011. The change primarily reflected the absence in 2012 of deemed disposal gains of RMB708 million recognised in 2011 as a result of the acquisition of a majority interest in Riot Games Inc. by us from the existing shareholders, including the founders of Riot Games, Inc. (“the Riot Games Acquisition”) and the acquisition of additional equity interest in Gamegoo Group Limited, which constituted a step-up business combination (“the Gamegoo Acquisition”), and an increase in impairment provision against selected investee companies in 2012. These factors were partially offset by the recognition of a special dividend income of RMB390 million from our investee company Mail.ru and an increase in subsidies and tax rebates in the year ended 31 December 2012.

Selling and marketing expenses. Selling and marketing expenses increased by RMB1,073 million, or 56%, from RMB1,921 million in 2011 to RMB2,994 million in 2012. This mainly reflected an increase in advertising and promotional activities on products and platforms such as online games and mobile applications, as well as spending related to the London Olympic Games. Staff cost also increased along with our business expansion. As a percentage of revenues, selling and marketing expenses was 7% for 2012, broadly stable compared to 2011.

General and administrative expenses. General and administrative expenses increased by RMB2,483 million, or 47%, from RMB5,283 million in 2011 to RMB7,766 million in 2012. This was primarily driven by increases in research and development expenses, staff costs and administrative expenses, partially offset by a decrease in intangible asset amortisation as certain intangible assets acquired through acquisition were fully amortised in the first quarter of 2012. As a percentage of total revenues, general and administrative expenses decreased from 19% in 2011 to 18% in 2012.

Operating profit. Operating profit increased by RMB3,225 million, or 26%, from RMB12,254 million in 2011 to RMB15,479 million in 2012.

Finance (costs)/income, net. We recorded finance costs, net of RMB348 million in 2012 compared to finance income, net of RMB36 million in 2011. The change was mainly driven by higher interest expense and the recognition of foreign exchange losses on our foreign currency denominated debts due to exchange rate movements in 2012.

Profit before income tax. Profit before income tax increased by RMB2,952 million, or 24%, from RMB12,099 million in 2011 to RMB15,051 million in 2012.

Income tax expense. We recorded income tax expense of RMB2,266 million in 2012 compared to RMB1,874 million in 2011. This primarily reflected: (i) higher profit before income tax; (ii) an increase in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted

retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies; and (iii) lower reversal of deferred tax liabilities arising from the Riot Games Acquisition. These factors were partially offset by a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB2,560 million, or 25%, from RMB10,225 million in 2011 to RMB12,785 million in 2012. Our profit margin was 29% in 2012 compared to 36% in 2011.

QUARTERLY RESULTS OF OPERATIONS

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

	Three months ended							
	31 Mar. 2012	30 June 2012	30 Sept. 2012	31 Dec. 2012	31 Mar. 2013	30 June 2013	30 Sept. 2013	31 Dec. 2013
	(RMB in millions)							
Revenues:								
VAS ⁽¹⁾	8,295	8,716	9,317	9,390	10,666	10,752	11,635	11,932
Online advertising	540	880	1,015	947	850	1,297	1,390	1,497
eCommerce transactions.....	752	858	1,134	1,684	1,914	2,199	2,359	3,324
Others.....	61	74	99	132	118	136	151	217
Total revenues	9,648	10,528	11,565	12,153	13,548	14,384	15,535	16,970
Cost of revenues	(3,836)	(4,311)	(4,787)	(5,273)	(5,954)	(6,590)	(7,036)	(8,198)
Gross profit	5,812	6,217	6,778	6,880	7,594	7,794	8,499	8,772
Interest income	167	197	206	266	277	324	336	377
Other (losses)/gains, net.....	(64)	(3)	(15)	(202)	351	82	66	405
Selling and marketing expenses..	(469)	(610)	(820)	(1,095)	(963)	(1,234)	(1,465)	(2,033)
General and administrative expenses	(1,755)	(1,862)	(2,025)	(2,124)	(2,196)	(2,401)	(2,621)	(2,770)
Operating profit	3,691	3,939	4,124	3,725	5,063	4,565	4,815	4,751
Finance (costs)/income, net.....	(71)	(115)	(99)	(63)	(82)	14	(22)	6
Share of (losses)/profit of associates	(9)	5	(21)	(29)	131	46	50	(14)
Share of profit/(losses) of joint ventures.....	1	(9)	(6)	(12)	(12)	(15)	(11)	(4)
Profit before income tax	3,612	3,820	3,998	3,621	5,100	4,610	4,832	4,739
Income tax expense.....	(651)	(708)	(756)	(151)	(1,029)	(926)	(955)	(808)
Profit for the period.....	2,961	3,112	3,242	3,470	4,071	3,684	3,877	3,931

Notes:

- (1) On 1 January 2013, we combined the two previously reported segments, Internet value-added services and mobile and telecommunications value-added services segments, into one single segment of value-added services. Accordingly, comparative figures of the years ended 31 December 2011 and 2012 were restated to conform to the new segment information presentation format.

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 January 2012 to 31 December 2013. The growth in our quarterly revenues was primarily attributable to

increases in revenues from our VAS, driven by growth in our online games revenues due to the increased popularity of our existing games, the introduction of new games as well as growth in social networks business. In addition, our eCommerce transactions business experienced significant growth as we expanded our product category and geographic coverage. Our online advertising business was subject to seasonal fluctuation as advertisers usually reduce their advertising spending around the Chinese New Year holidays in the first quarter.

LIQUIDITY AND CAPITAL RESOURCES

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

- our working capital requirements, such as sharing and content costs, staff costs, bandwidth leasing and server custody fees, sales and marketing expenses and research and development expenses; and
- costs associated with the expansion of our business, such as the purchase of servers and network equipment.

We had cash and cash equivalents of RMB12,612 million, RMB13,383 million and RMB20,228 million (US\$3,341 million) as of 31 December 2011, 2012 and 2013, respectively. Our term deposits included in current and non-current assets were RMB13,716 million, RMB24,698 million and RMB31,043 million (US\$5,127 million) as of 31 December 2011, 2012 and 2013, respectively.

Our net current assets were RMB14,320 million, RMB15,844 million and RMB20,419 million (US\$3,373 million) as of 31 December 2011, 2012 and 2013, respectively. Net current assets increased in 2013 as compared to 2012 primarily due to the higher levels of term deposits, prepayments, deposits and other assets, and cash and cash equivalents, partially offset by increases in other payables and accruals, borrowings and deferred revenues in the same period. Net current assets increased in 2012 as compared to 2011 primarily due to the higher levels of cash and cash equivalents and prepayments, deposits and other assets and a decrease in borrowings, which was partially offset by the decrease in restricted cash and the increase in deferred revenues, accounts payable and other payables and accruals.

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

Our accounts receivable were RMB2,021 million, RMB2,354 million and RMB2,955 million (US\$488 million) as of 31 December 2011, 2012 and 2013, respectively. There are no contractual requirements for telecommunications operators to pay amounts owed to us within a specified period of time, these operators usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit of 90 days after full execution of the contracted advertisement order.

Our accounts payable were RMB2,244 million, RMB4,212 million and RMB6,680 million (US\$1,103 million) as of 31 December 2011, 2012 and 2013, respectively. We normally settle the amount due to us according to the terms of our contracts.

Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)
Net cash flows generated from operating activities.....	13,358	19,429	24,374	4,026
Net cash flows used in investing activities.....	(15,355)	(16,270)	(19,134)	(3,160)
Net cash flows generated from/(used in) financing activities	4,373	(2,386)	1,708	282
Net increase in cash and cash equivalents	2,376	773	6,948	1,148
Cash and cash equivalents at beginning of year.....	10,408	12,612	13,383	2,211
Exchange losses on cash and cash equivalents	(172)	(2)	(103)	(18)
Cash and cash equivalents at end of year	<u>12,612</u>	<u>13,383</u>	<u>20,228</u>	<u>3,341</u>

Cash Flows from Operating Activities

In 2013, we had a cash inflow from operating activities in the amount of RMB24,374 million (US\$4,026 million). This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB21,577 million and changes in working capital in the amount of RMB5,915 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB3,118 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB3,728 million, (ii) an increase in account payable of RMB2,036 million, (iii) an increase in other payables and accruals of RMB4,071 million and (iv) an increase in other tax liabilities of RMB52 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB940 million, (ii) an increase in accounts receivable of RMB606 million, (iii) an increase in inventories of RMB815 million and (iv) an increase in restricted cash of RMB1,611 million.

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

In 2011, we had a cash inflow from operating activities in the amount of RMB13,358 million. This was primarily a result of net cash flows generated from operation before changes in working capital in the amount of RMB14,017 million and changes in working capital in the amount of RMB1,177 million.

Our net cash inflow from operating activities was after deduction of income tax paid of RMB1,836 million. The changes in working capital primarily consisted of (i) an increase in deferred revenues of RMB2,253 million, (ii) an increase in other payables and accruals of RMB2,874 million, (iii) an increase in accounts payable of RMB828 million, partially offset by (i) an increase in prepayments and deposits of RMB2,630 million, (ii) an increase in restricted cash of RMB1,851 million, (iii) an increase in accounts receivable of RMB251 million and (iv) a decrease in other tax liabilities of RMB46 million.

Cash Flows used in Investing Activities

Net cash used in investing activities for the year ended 31 December 2013 was RMB19,134 million (US\$3,160 million), primarily reflecting the net payment flow for the term deposits of RMB6,345 million, the payment of interest in associates of RMB4,456 million and the purchase of fixed assets, construction in progress and investment properties of RMB4,788 million, partially offset by interest received of RMB536 million and dividends received of RMB551 million.

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

Net cash used in investing activities for the year ended 31 December 2011 was RMB15,355 million, primarily reflecting the purchase of fixed assets, construction in progress and investment properties in the amount of RMB4,060 million and payments for interests in associates in the amount of RMB3,529 million, payment for restricted cash in the amount of RMB2,055 million and the net payment flow for term deposits in the amount of RMB1,991 million.

Cash Flows from/(used in) Financing Activities

Net cash generated from financing activities for the year ended 31 December 2013 was RMB1,708 million (US\$282 million), primarily reflecting proceeds from long-term bank borrowings of RMB2,846 million, proceeds from short-term bank borrowings of RMB2,320 million and net proceeds from issuance of long-term notes of RMB1,847 million, partially offset by repayment of long-term bank borrowings of RMB1,328 million, repayment of short-term bank borrowings of RMB986 million, payment for repurchase of shares of RMB1,325 million, dividend paid to the Company's shareholders and the non-controlling interests of RMB1,541 million.

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

Net cash generated from financing activities for the year ended 31 December 2011 was RMB4,373 million, primarily reflecting proceeds from short-term borrowings of RMB6,683 million and net proceeds from issuance of long-term notes of RMB3,761 million, partially offset by repayment of short-term borrowings of RMB3,766 million, payments for repurchase of shares of RMB1,047 million and dividend paid to the Company's shareholders and the non-controlling interests of RMB895 million.

Capital Expenditure

Our capital expenditures consisted of additions (excluding business combinations) to fixed assets which primarily include, computers and servers, construction in progress, land use rights and intangible assets (excluding game and other content licences), were RMB3,689 million, RMB4,493 million and RMB5,799 million (US\$958 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

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

INDEBTEDNESS

Our total borrowings amounted to RMB7,999 million, RMB3,183 million and RMB5,912 million (US\$977 million) as of 31 December 2011, 2012 and 2013, respectively.

Our total long-term notes payable amounted to RMB3,733 million, RMB7,517 million and RMB9,141 million (US\$1,510 million) as of 31 December 2011, 2012 and 2013, respectively. On 12 December 2011, we completed the issue of the 2016 Notes. The 2016 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2016 Notes will mature on 12 December 2016. See “*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2016 Notes*”. On 5 September 2012, we completed the issue of the 2018 Notes. The 2018 Notes bear an interest at 3.375% per annum from 5 September, 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2018 Notes will mature on 5 March 2018. See “*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2018 Notes*”. On 10 September 2013, we completed the issue of the 2015 Notes. The 2015 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2015 Notes are non-publicly issued and will mature on 10 September 2015. See “*Description of Other Material Indebtedness—U.S. Dollar Borrowings—2015 Notes*”

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

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)
Current:				
RMB bank borrowings				
— secured ⁽¹⁾	2,959	15	—	—
— unsecured.....	—	25	150	25
	2,959	40	150	25
USD bank borrowings — unsecured ⁽²⁾	4,411	943	2,134	353
Bonds — unsecured ⁽³⁾	629	—	—	—
Current portion of long-term USD bank borrowings — unsecured	—	94	305	50
	7,999	1,077	2,589	428
Non-current:				
Non-current portion of long-term USD bank borrowings — unsecured ⁽⁴⁾	—	2,106	3,323	549
Total borrowings	7,999	3,183	5,912	977
Long-term notes payable ⁽⁵⁾	3,733	7,517	9,141	1,510
Total	11,732	10,700	15,053	2,487

Notes:

- (1) No secured bank borrowings as of 31 December 2013.
- (2) Unsecured short-term bank borrowings of carrying amount of RMB2,134 million as of 31 December 2013 were denominated in USD. The aggregate principal amount was US\$350 million and the interest rates were LIBOR plus 1.20% to 1.25% per annum.
- (3) In March 2011, we issued U.S. dollar denominated bonds at par value of US\$100 million. The bonds were unsecured and bore a floating rate of LIBOR plus 0.25% per annum. The bonds matured and were fully paid off in March 2012. The Group also entered into foreign exchange forward contracts to purchase the required amount of U.S. dollar with RMB for settling the principal amount of the bonds upon their due dates.
- (4) Unsecured long-term bank borrowing of carrying amount of RMB3,628 million as of 31 December 2013, were denominated in USD. The aggregate principal amount was US\$595 million and the interest rate was LIBOR plus 1.05% to 1.97% per annum.
- (5) On 12 December 2011, we issued the 2016 Notes in an aggregate principal amount of US\$600 million that will mature on 12 December 2016. The 2016 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year. The 2016 Notes were issued at 99.740% of the aggregate principal amount. On 5 September 2012, we issued the 2018 Notes in an aggregate principal amount of US\$600 million that will mature on 5 March 2018. The 2018 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year. The 2018 Notes were issued at 99.771% of the aggregate principal amount. On 10 September 2013, we issued the 2015 Notes in an aggregate principal amount of US\$300 million that will mature on 10 September 2015. The 2015 Notes bear interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year. The 2015 Notes were issued at 99.766% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

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

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)
Contracted:				
Construction/purchase of building and purchase of land use right	463	447	2,166	358
Purchase of other fixed assets.....	132	142	403	66
Capital investment in investees.....	817	868	854	141
	1,412	1,457	3,423	565
Authorised but not contracted:				
Construction/purchase of building and purchase of land use right	1,187	1,109	851	141
Capital investment in investees.....	652	451	—	—
	1,839	1,560	851	141
Total.....	3,251	3,017	4,274	706

Operating Lease Commitments

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

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)
Contracted:				
Not later than one year	520	533	760	126
Later than one year and not later than five years	1,463	1,360	2,013	333
Later than five years	286	288	1,455	239
Total	2,269	2,181	4,228	698

Other Commitments

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

	As of 31 December			
	2011	2012	2013	
	(RMB in millions)		(RMB in millions)	(US\$ in millions)
Contracted:				
Not later than one year	596	1,052	1,397	231
Later than one year and not later than five years	768	1,299	1,299	214
Total	1,364	2,351	2,696	445

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as of 31 December 2013.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Interest Rate Risk

We have interest-bearing assets including receivables in associates, term deposits and cash and cash equivalents. Our exposure to market rate risk for changes in interest rates relates primarily to our debt (including borrowings and long-term notes issued). Borrowings issued at variable rates expose us to cash flows interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. We have had bank borrowings and issued long-term notes denominated in U.S. dollars having variable and fixed interest rates as of 31 December 2013.

Price Risk

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

Credit Risk

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

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

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

Foreign Currency Exchange Risk

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

There is no other written policy to manage the foreign exchange risk in relation to U.S. dollars, H.K. dollars, Euro, Korea Won and New Taiwan Dollar as management considers that such risk cannot be effectively reduced in a low-cost way. In the past, we entered into certain foreign exchange forward contracts arrangements for managing our foreign exchange risk in relation to banks loans denominated in U.S. dollars.

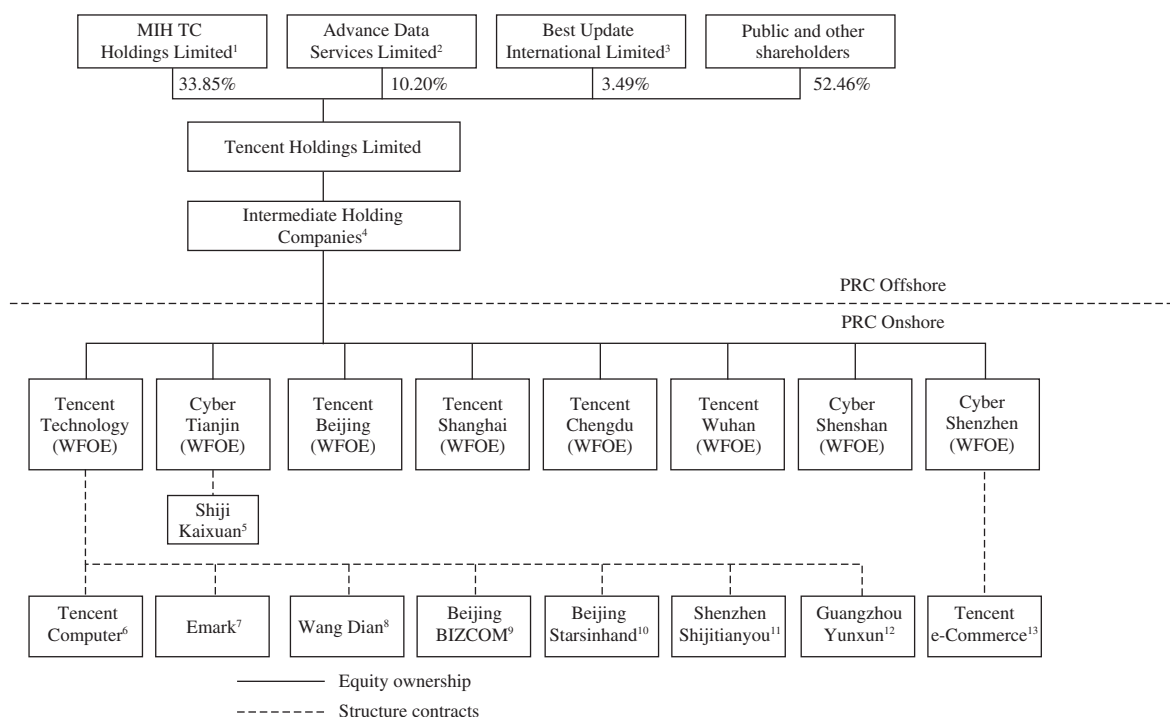
Liquidity Risk

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

OUR CORPORATE STRUCTURE

We were incorporated in the BVI on 23 November 1999 as an international business company with limited liability. We redomiciled to the Cayman Islands on 27 February 2004 and continued as an exempted company with limited liability under the Cayman Islands Companies Law.

The following diagram illustrates our principal corporate and share ownership structure as of 31 December 2013.



Notes:

- (1) MIH TC Holdings Limited is controlled by Naspers Limited through its wholly owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings (Proprietary) Limited.
- (2) Wholly owned by Mr. Ma Huateng.
- (3) Wholly owned by Mr. Zhang Zhidong.
- (4) Intermediate Holding Companies include various Group companies established for the purpose of holding interests in various WFOEs as well as other investments of the Group.
- (5) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (6) The shareholders are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.
- (7) Emark: Beijing Emark Information Technology Company Limited 北京驛碼神通信息技術有限公司.
- (8) Wang Dian: Nanjing Wang Dian Technology Company Limited 南京網典科技有限公司.
- (9) Beijing BIZCOM: Beijing BIZCOM Technology Company Limited 北京英克必成科技有限公司.
- (10) Beijing Starsinhand: Beijing Starsinhand Technology Company Limited 北京市掌中星天下信息技術有限公司.
- (11) Shenzhen Shijitianyou: Shenzhen Shiji Tian You Technology Company Limited 深圳市世紀天游科技技術有限公司.
- (12) Guangzhou Yunxun: Guangzhou Yunxun Technology Company Limited 廣州雲訊信息技術有限公司.
- (13) Tencent e-Commerce: Shenzhen Tencent e-Commerce Information Technology Company Limited 深圳市騰訊電商信息技術有限公司.

We primarily conduct our PRC operations through our WFOEs, including Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Shanghai, Tencent Chengdu, Tencent Wuhan, Cyber Shenshan and Cyber Shenzhen. The Company holds its interests in the WFOEs through certain intermediate holding companies wholly owned by the Company. Our WFOEs employ a substantial portion of our staff, develop the principal software (other than software acquired from third-party providers) for our operations and hold our principal intellectual property rights.

STRUCTURE CONTRACTS

PRC regulations currently restrict foreign ownership of companies that provide value-added telecommunications services. See also “*General Regulation on Internet and Telecommunications Industries*”. As foreign-invested enterprises, our WFOEs do not have licences to provide Internet content or information services and other value-added telecommunications services. Accordingly, we conduct our value-added telecommunications businesses mainly through Tencent Computer, Shiji Kaixuan and other consolidated affiliated entities, under a series of contractual agreements (collectively, the “**Structure Contracts**”) entered into among our constituent members. Tencent Computer and Shiji Kaixuan are licenced to provide Internet information services and other value-added telecommunications services and operate those services. The shareholders of Tencent Computer and Shiji Kaixuan are Mr. Ma Huateng, Mr. Zhang Zhidong, Mr. Xu Chenye and Mr. Chen Yidan.

As a result of the Structure Contracts, the Group is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of, our consolidated affiliated entities. In summary, the Structure Contracts provide the Company through the WFOEs with, among other things:

- the right to receive the cash received by the consolidated affiliated entities from their operations which is surplus to their requirements, having regard to their forecast working capital needs, capital expenditure and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that the WFOEs own the valuable assets of the business through the assignment to the WFOEs of the principal present and future intellectual property rights of the consolidated affiliated entities without making any payment; and
- the right to control the management and financial and operating policies of the consolidated affiliated entities.

The Structure Contracts establish a co-operation committee (the “**Co-operation Committee**”) for each of the consolidated affiliated entities to oversee its business and operations. The Co-operation Committees advise, supervise and effectively control the businesses of the consolidated affiliated entities. Through the Co-operation Committees, the WFOEs advise, supervise and effectively control the business of the consolidated affiliated entities. Under the Structure Contracts, the Co-operation Committees will adopt an internal governance mechanism for payments, expenditure and expenditure-related contracts. Our approval matrix is required to be consistent throughout the Group and can be amended only by the Directors of the Company, and any such amendment applies to all members of the Group.

The Structure Contracts also effectively transfer from the consolidated affiliated entities to the WFOEs all of the cash that is surplus to the requirements of the consolidated affiliated entities, primarily in the form of fees paid for the WFOE’s provision of certain technology and information services to the consolidated affiliated entities under the applicable Structure Contracts between the WFOEs and the consolidated affiliated entities. The Co-operation Committee determines and adjusts periodically the fees to be paid by the consolidated affiliated entities to the WFOEs to ensure that all such surplus cash of the consolidated affiliated entities is transferred to the WFOEs.

These arrangements, taken as a whole, permit the results and financial condition of the consolidated affiliated entities to be consolidated with the Company as if they were subsidiaries of the Company and that the economic benefit of their businesses flows to the Company and the WFOEs.

Our PRC legal counsel, Jun He Law Offices, is of the opinion that the Structure Contracts setting forth our contractual arrangements among various of our consolidated affiliated entities and their relevant shareholders have been duly authorised, executed and delivered by the applicable PRC companies and PRC individuals who are parties thereto and that each of the Structure Contracts (i) constitutes a legal, valid and binding obligation of the PRC companies and PRC individuals who are parties thereto and is enforceable against such parties in accordance with its terms, subject, as to enforceability, to bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles; and (ii) is in compliance with, and does not violate any applicable existing requirements of, PRC Laws. In providing their opinion our counsel has noted that there are ongoing uncertainties and risks in this area as further described under "*Risk Factors — Risks Related to our Corporate Structure*" and "*General Regulation on Internet and Telecommunications Industries*".

BUSINESS

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating the largest IM community for both PC and mobile in the country with 808.0 million MAU of QQ and 355.0 million combined MAU of Weixin and WeChat as of 31 December 2013. We are the leading IM provider in the PRC with QQ having a market share of 83.7% for PC IM services, while Mobile QQ and Weixin have a market share of 41.6% and 54.5% for Mobile IM services respectively, as measured by monthly time spent by users as of December 2013, according to iResearch. We also provide diversified social networking and social media services including Qzone and Tencent Microblog. We are the largest SNS provider with our Qzone and Tencent Microblog together having a market share of 72.7% in the PRC as measured by monthly time spent by users in December 2013, according to iResearch. QQ.com had 133.9 million daily average unique visitors in December 2013, which ranked first among all online portals in the PRC, according to iResearch, and No. 7 website in the world in user traffic as of March 2014 according to Alexa.com. Leveraging our social communications platforms and our massive user base, we aim to become the hub for fulfilling Internet users' online lifestyle needs, encompassing communication, social networks, entertainment, media content and eCommerce. The breadth of our highly popular services cover: QQ IM, Qzone, QQ Game Platform, QQ.com, Tencent Video, eCommerce services, mobile news and our mobile social communication platforms, Weixin and WeChat. We were founded in November 1998 and we launched our QQ IM service in February 1999. Currently, we have four lines of business:

- **Value-added Services** — Our VAS business mainly consists of online games and social networks services. We offer a diversified game portfolio ranging from PC client games like MCGs, ACGs, MMOGs, to PC web games and mobile games. We are a leading provider of social networks services in the PRC, including QQ Membership, Qzone and Tencent Microblog, etc. We monetise our VAS business primarily via monthly subscriptions and item-based sales within PC and mobile games or other applications.
- **Online Advertising** — Our online advertising services primarily comprise brand display advertising and performance display advertising. Brand display advertising mainly comprises branded advertisements displayed on our online video, IM clients, portals and other platforms. Performance display advertisements are delivered primarily on our SNS platforms and other platforms.
- **eCommerce Transactions** — Our eCommerce transactions business involve B2C eCommerce transaction, sales of merchandise and services on our B2C marketplaces, C2C marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce.
- **Others** — Our other services include trademark licensing, software development services and software sales.

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

We went public and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December

2013, our total revenues was RMB60,437 million (US\$9,983 million) and our profit for the year was RMB15,563 million (US\$2,571 million), an increase of 38% and 22%, respectively, over the year ended 31 December 2012. As of 31 December 2013, our cash and cash equivalents and term deposits amounted to RMB51,271 million (US\$8,468 million).

OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

Large and Highly Engaged User Base with Strong Network Effect

We operate the largest IM community in the PRC with 808.0 million MAU of QQ as of 31 December 2013. For the three months ended 31 December 2013, we recorded 180.3 million PCU of QQ up from 176.4 million for the three months ended 31 December 2012. We recorded 355.0 million combined MAU for Weixin and WeChat as of 31 December 2013. Our large and highly engaged user base creates strong network effect for our IM users to interact with one another through IM and our other applications and value-added services, which in turn enables us to retain our existing users and attract new users. In addition, our large user base provides us with the opportunity to market and deliver our value-added services and products. We believe that our large and active user base creates a high barrier to entry, as it is challenging for our competitors to build a similar critical mass of users for their products and services.

Successful Monetisation through Diversified Products and Services

We continuously develop innovative services to expand and enrich the experience of our users and enhance their loyalty to our online community. To fulfill our users' online lifestyle needs, we offer a wide range of value-added services, such as social networks, digital content, online games and eCommerce services. Our diverse offering of products and services, combined with our large user base, offer us significant monetisation opportunities and enable us to diversify our revenue streams. We generate value-added services revenue from user subscriptions and item-based sales. We have monetised user traffic generated from our IM clients, SNS, video, portals and other platforms through online advertising. By continuing to develop new products and services to meet the rapidly evolving needs of the increasingly sophisticated Internet users, we expect that we will be able to generate additional revenue from new services.

Significant Market Leadership in Multiple Service Areas

We have a strong presence for all of our key products and services, including IM, SNS, online games and online advertising. We believe our leading position is underpinned by our in-depth understanding of the needs of our users and the trends in the market, as well as our strong research and development capability.

- *IM* — We are the leading IM provider in the PRC with QQ having a market share of 83.7% as measured by monthly time spent by users for PC IM services, while Mobile QQ and Weixin have a market share of 41.6% and 54.5% respectively as measured by monthly time spent by users for Mobile IM services as of December 2013, according to iResearch.
- *SNS* — We provide diversified social networking and social media services including Qzone and Tencent Microblog. We are the largest SNS provider with our Qzone and Tencent Microblog collectively having a market share of 72.7% in the PRC as measured by monthly time spent by users in December 2013, according to iResearch.

- *Online games* — We are the largest online game operator and a leading game developer in the PRC with a market share of 35.9% as measured by revenue in the year ended 31 December 2013, according to iResearch. We operate six of the top ten most popular online game titles in the PRC, according to Baidu online games search ranking as of 31 March 2014. We distribute some of the most popular online game titles in China, including League of Legends, Dungeon and Fighter, Cross Fire, QQ Speed and QQ Dancer, each of which had over 1 million PCU in each of the last four quarters ended 31 December 2013 during which such title was available.
- *Online advertising* — QQ.com had 133.9 million daily average unique visitors in December 2013, which ranked first among all online portals in the PRC, according to iResearch. We sell brand display advertisements on IM, QQ.com and other platforms. Utilising our proprietary targeted advertising system, we also offer performance display advertising solutions on our social networks platforms and other platforms. We had over 1,000 brand display advertisers for our online advertising platforms as of the fourth quarter of 2013.

Highly Cash Generative Consumer-oriented Business Model

We have consistently generated healthy cash flows from our operations and maintained positive operating cash flows since 2001, even during the past economic downturns, including the global economic slowdown that began in the second half of 2008. A significant majority of our revenue is derived from micro-transactions or subscription revenue generated by our massive user base. We price most of our products and services at an affordable level for the average Internet user, making our earnings and cash flows more resilient to economic cycles. Consequently, our business is generally less affected by the global economic slowdown and domestic macro-tightening measures. We bill and collect a majority of our revenue through prepaid channels, including prepaid Q-Coin cards and our e-sales system, which minimises our working capital needs and achieves a high cash flows conversion ratio. In addition, our Internet-based business model demonstrates significant operational scalability and requires low capital expenditures. As of 31 December 2013, our cash and cash equivalents and term deposits reached RMB51,271 million (US\$8,468 million), up from RMB38,081 million as of 31 December 2012.

Stable and Proven Management Team

We have a stable and capable senior management team with extensive operating experience in the PRC Internet and telecommunications industries as well as strong capabilities in developing and executing innovative business strategies. Besides core founders, we have recruited senior management talents from leading global firms, such as Lau Chi Ping Martin, our President and James Gordon Mitchell, our Chief Strategy Officer. We also have competitive training and career development plans in place to continuously build our own teams. The collective experience of our management team brings together a mix of local and international experience, industry knowledge and complementary skill sets which have allowed us to smoothly transition to a large scale, professionally managed company since our IPO. We believe our committed and experienced management team will continue to lead us to further success.

OUR STRATEGIES

Our strategic objective is to strengthen our market leading position and become the hub for fulfilling Internet users' online lifestyle needs. We will undertake strategic initiatives focused on expanding our market shares, diversifying our services and products and sustaining our growth and profitability. In particular, we will seek to:

Further Expand Our User Base and Increase User Engagement

We believe the size of our user base and depth of user engagement in our online community are our critical competitive advantages. We plan to further expand our user base and increase user engagement

by enhancing user experience and broadening our services and products. For example, to capture the increasing integration between the PC and mobile Internet, we have been enhancing the functions and features on our Mobile QQ and Weixin, which integrate value-added services such as online games, news and local services. Such enhancements will further enable us to expand our user base and to deepen user engagement in China and the overseas market via WeChat.

Further Monetise Our User Base and User Traffic

We seek to broaden and enhance our fee-based value-added services, and promote user subscriptions and item-based sales to increase paying user conversion rate. We are investing to enhance the overall competitiveness of our online advertising platform, and are exploring the synergies between SNS and our other services.

Capture the Emerging Mobile Internet Trend

We are a leading provider of mobile applications which cover a range of categories, including communication, social networks, news, games, browser and security solutions. As our users demand more mobility and real-time information, we will continue to introduce a growing number of services and applications across a broader range of Internet-enabled mobile devices. We also intend to develop services and products that cater to the needs of smartphone users.

Pursue an Open Platform Strategy That Promotes Innovation and Collaboration.

We pursue an open platform strategy and seek to increasingly collaborate with third-party developers and industry partners to further enrich the applications offered on our open platforms, including Qzone and QQ Game Platform, thus increasing social sharing and interaction among our users. We are extending this open platform strategy from PC to mobile through games. By offering a large number of quality third-party and in-house applications, we endeavour to promote innovation within our open platforms, which we expect will ultimately enhance the value of our open platforms as a whole. Our open platforms are the largest of their kind in China, incubating more than 850,000 registered third party developers as of April 2013.

Pursue Selective Investments and Acquisitions to Enhance Our Business Portfolio, Proprietary Content, Distribution Channels, Technology and International Presence

We have made strategic investments and acquisitions in the PRC, emerging markets such as Russia, Brazil, India and Southeast Asia, as well as other strategic markets such as the United States. We have also been leveraging our technical and operational know-how to deliver quality Internet and mobile applications and services to users in these markets. We intend to continue pursuing selective investments and acquisitions of businesses, assets, content and technologies that complement our existing capabilities and revenue streams, as well as strategic investments and/or co-operation opportunities with top vertical category leaders. We seek to capture these opportunities by identifying strategic investments that will strengthen our position as the hub for fulfilling Internet users' online lifestyle needs.

RECENT DEVELOPMENTS

Strategic Partnership with JD.com Inc.

On 10 March 2014, we completed a transaction with JD.com, a leading online direct sales company in the PRC, to collaborate with JD.com in providing eCommerce services to mobile and Internet users in China. As the largest online direct sales company in the PRC in terms of transaction volume in 2013, JD.com offers products and services through its www.jd.com website and mobile applications. JD.com offers one of the widest ranges of products on their website of any eCommerce company in

the PRC, and has the largest fulfilment infrastructure of any ecommerce company in China. JD.com is currently contemplating an initial public offering and has filed a registration statement on form F-1 with the U.S. Securities and Exchange Commission. JD.com is a company incorporated in the Cayman Islands with limited liability.

We entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com, pursuant to which we purchased 351,678,637 ordinary shares of JD.com, representing 15% of the outstanding JD.com ordinary shares on a fully diluted pre-IPO basis immediately after the completion of the JD.com Pre-IPO Subscription for total consideration consisting of a net cash payment, certain eCommerce related businesses and assets of the Group and a 9.9% equity interest in Shanghai Ictson as well as a call option having been granted to JD.com to acquire the remaining equity interests held by the Group in Shanghai Ictson at the higher of RMB800 million and the then fair value of the interests on or before 10 March 2017, subject to compliance with all applicable laws. In addition, we entered into a strategic cooperation agreement with JD.com. We also entered into an IPO share subscription agreement to agree to subscribe for a further 5% of the outstanding JD.com ordinary shares on a fully diluted post-IPO basis immediately after the consummation of the JD.com's IPO. We accounted for the investment in JD.com as an investment in associate. The JD.com Pre-IPO subscription closed on 10 March 2014.

Pursuant to the strategic co-operation agreement with JD.com, we will support JD.com's physical goods eCommerce business by offering level 1 access points in Weixin and Mobile QQ, as well as support from other key platforms. Both parties will also co-operate on online payment services to improve users' online shopping experience.

Furthermore, we have entered into an IPO share subscription agreement under which we agree to acquire at the IPO price an additional 5% all outstanding JD.com ordinary shares (including all JD.com ordinary shares issuable in respect of all outstanding securities convertible into or exercisable or exchangeable for JD.com ordinary shares and all JD.com ordinary shares issuable in respect of all outstanding options, warrants and other rights to acquire JD.com ordinary shares or securities convertible into or exercisable or exchangeable for JD.com ordinary shares) immediately after the consummation of the IPO and after taking into account any exercise of the green-shoe or over-allotment option in connection with the IPO. Our obligation to subscribe for IPO shares of JD.com will terminate if the IPO is not completed by 30 June 2015.

We have also granted a call option to JD.com, which gives JD.com the right to acquire all of the interests held by us in Shanghai Ictson immediately before the exercise of the call option for the higher of RMB800 million and the then fair market value of the such interest. The call option will expire on 10 March 2017 and may only be exercised in compliance with all applicable laws.

We have also entered into an amended and restated shareholders agreement with JD.com and certain shareholders of JD.com, providing for us to have the right to nominate one director to the board of directors of JD.com and restricting our ability to dispose of shares acquired in the Pre-IPO purchase without the consent of JD.com for a period of three years.

To effect the transactions, the Company, JD.com and their respective subsidiaries or affiliates entered into certain other transaction documents, including a series of onshore equity transfer agreements and asset transfer agreements, which contain customary terms, conditions, representation, warranties and indemnities which are usual and customary for transactions of similar nature and scale.

SERVICES AND PRODUCTS

Leveraging our large user base, as well as our strategic relationships with telecommunications operators, device manufacturers, content providers and advertisers, we are continuously expanding our services and products as well as the channels to deliver them to our users. We continuously produce and source new content that seeks to appeal to and engage our target consumers for value-added services.

Communication Platforms

IM provides a foundation for our online community and serves as a gateway to our value-added services. We are one of the early developers of IM services in the PRC as demonstrated by the launch of our QQ IM service in February 1999. We intend to continue leveraging the popularity of our QQ service to deliver value-added community and entertainment services to our expanding QQ user base.

QQ. QQ is our free IM service that allows users to send and receive instant messages and participate in the QQ community. In addition, via the QQ IM client, our users can have access to a variety of our services such as QQ Mail, Qzone, Tencent Microblog and QQ Game Platform.

Weixin and WeChat. While the overall IM user growth rate has slowed due to increased scale and reduced growth of the PRC Internet market, the growth of our mobile IM user base has outperformed that of the overall IM user base. To capture the growth of mobile Internet usage, we have developed and operated Weixin, a mobile social communications services since 2011. Weixin is now the most popular mobile social community in China by monthly active user accounts. We are also exploring opportunities in the overseas mobile Internet market through WeChat, a sister platform to the Weixin mobile social communication service for the overseas mobile market. Going forward, we expect that mobile Internet will become an increasingly important driver for the expansion of our online communities.

In August 2013, we introduced Weixin Payment, a built-in payment service that enables banking transactions through selected online and offline merchants via our Weixin platform. Weixin Payment allows users to make purchases via in-app payments such as in-game items, payment for official accounts such as flight tickets and subscription services. During Chinese New Year in 2014, we introduced a feature allowing users to send money to friends and families in the form of virtual red packets, a popular Chinese New Year tradition.

Media platforms

QQ.com

Our QQ.com portal provides users with information and community resources via various channels such as news, finance, sports, entertainment and automobiles. The landing page and certain major channels of QQ.com offer personalised communications and information-sharing services for our users and also improve integration with our media platforms, including online video and microblog.

Tencent Video. We offer premium video content including drama series, movies, variety shows and animation, which are licenced from domestic and overseas content providers. Users can view video content free of charge from both our P2P video service (QQ Live) and our video web portals (v.qq.com and film.qq.com). We also partner with major Hollywood film studios including Warner Bros. Entertainment Inc. and The Walt Disney Company to offer subscription packages and video-on-demand services for our users to view exclusive video content.

Business Segments

VAS

Our VAS business mainly consists of online games and social networks services. Our VAS revenue mainly comprises of subscription revenue and item-based sales from our online games, VIP membership services and item-based sales on our platforms. While most of the basic features of our VAS are free-of-charge, users can choose to pay for virtual items, special privileges and premium features. Our VAS revenue was RMB35,718 million for the year ended 31 December 2012 and RMB44,985 million (US\$7,431 million) for the year ended 31 December 2013. VAS revenue accounted for 81% of our total revenue for the year ended 31 December 2012 and 75% of our total revenue for the year ended 31 December 2013.

Online Games

We are the largest online games operator in the PRC with a market share of 35.9% as measured by revenue in the year ended 31 December 2013, according to iResearch. We operate QQ Game Platform, which is a leading and popular casual game platform in the PRC in terms of PCU. Some of our most popular self-developed and licenced games include League of Legends, Dungeon and Fighter, Cross Fire, Blade and Soul, QQ Speed, QQ Dancer and Legend of YuLong. In August 2013, we introduced game centres on our key social communications platforms, Mobile QQ and Weixin, which allows users to play games solo or invite their friends to play together online. In January 2014, we expanded our presence to offer mobile games to the international WeChat users through the game centre on WeChat.

We currently allow our registered users to play a majority of our games for free. Our online games revenue is derived primarily from sales of virtual items, such as Avatars and accessories that enhance game play experience, and subscription fees for membership services, which provide special privileges, premium game features and discounts on in-game items. These items and services allow players to utilise more functions, improve game character performance and skills and personalise the appearance of a game character. Our online games revenue was RMB23,817 million for the year ended 31 December 2012 and RMB31,966 million (US\$5,280 million) for the year ended 31 December 2013. Online games revenue accounted for 54% of our total revenue for the year ended 31 December 2012 and 53% of our total revenue for the year ended 31 December 2013.

Our main categories of online games are PC client games including the QQ Game Platform, ACGs and MMOGs, and mobile games. The games that we operate are in-house or licenced from third parties. We intend to release a number of in-house and licenced games each year. We have worked with other major game developers and operators from the PRC, South Korea, Japan, the United States, and Germany and customised and localised their games to suit the culture and needs of the PRC market.

QQ Game Platform. We currently offer 67 in-house and third-party web games and more than 120 MCGs, including card games, board games, chess and other evergreen game genres, through QQ Game Platform. For the year ended 31 December 2013, our QQ Game Platform recorded 8.5 million in combined PCU and 4.2 million in combined ACU.

ACG. We currently offer 12 game titles, covering game genres including music, first-person shooter, car racing, sports, combat and multiplayer online battle arena games. For the year ended 31 December 2013, our ACGs recorded 17.1 million in combined PCU and 6.0 million in combined ACU.

MMOG. We currently offer 19 game titles, with game genres including action, combat and strategy. The interactive and group-oriented nature of these games means that the large size of our user base significantly contributes to retaining our current users and attracting new users. For the year ended 31 December 2013, our MMOGs recorded 5.6 million in combined PCU and 2.5 million in combined ACU.

Mobile Games. We currently offer mobile games for feature phone and smart phone users including single downloads, WAP games and mobile game apps. Since August 2013, we have launched games through the game centres of our key social communications platforms, Mobile QQ and Weixin. We currently offer 12 game titles through the game centres on Mobile QQ and Weixin. Our Mobile QQ and Weixin game centres have a large user base, with over 100 million unique daily active user accounts and six titles exceeding 10 million daily active user accounts, in each case as of February 2014. We have repositioned our app store as a distribution hub, with peak daily app downloads reaching 64 million earlier 2014.

Social Networks

Our social networks include social networking websites, premium membership services and other interactive products. The basic features of our community value-added services are generally provided for free. We primarily offer item-based sales and subscriptions for premium services and products. We intend to improve user activeness and interaction through enhancements in content, functionalities, third-party applications and online and offline member privileges.

We operate multiple open platforms with a large user base across different sectors of the Internet market, including SNS, online games and microblog. We generate item-based sales revenue from in-house and third-party applications offered through our open platforms.

Our social networks revenue was RMB11,901 million and RMB13,019 million (US\$2,151 million) for the year ended 31 December 2012 and for the year ended 31 December 2013, respectively. Social networks revenue accounted for 22% of our total revenue for the year ended 31 December 2013.

Qzone. Qzone is our SNS platform that permits users to write blogs, keep diaries, upload photos, listen to music and engage in other premium services which can be shared among designated peer groups organised and accepted by the users. Users may purchase items or subscriptions that allow access to all services without additional costs. The revenue mix of Qzone is changing with an increasing contribution from item-based sales through third-party and in-house social applications offered on the platform. We expect to work with a growing number of third-party developers on the Qzone platform which will provide our users with a wide selection of applications. As of 31 December 2013, Qzone had 625.2 million monthly active user accounts.

QQ Membership. Since its inception in 2000, QQ Membership has developed into a premium membership brand through which we provide our premium customers a range of privileges associated with IM, online games, online and offline lifestyle services and eCommerce. We have recently offered *Super VIP* subscription services which consist of privileges for both PC and mobile devices to cater to the increasing needs of mobile Internet usage.

QQ Show. The QQ Show platform allows users to create fashionable Avatars, which represent users' online identity throughout their activities in IM, online games, and social networking. Revenue for QQ Show is generated from its monthly subscription service and item-based sales, such as facial expressions, costumes and character backgrounds.

Other VAS. We provide a growing list of VAS services to meet the diversifying needs of our users. These services include QQ Music and QQ Book.

Online Advertising

We offer a broad range of advertising formats and solutions, including brand display advertising (such as advertising on online video, IM clients and portals) and performance display advertising. Our brand display advertising clients include domestic and international companies from a variety of industries, including food and beverages, automobile, online service, consumer electronics and real estate

industries. We also have small and medium enterprise advertisers for performance display advertising. Our online advertising revenue was RMB3,382 million for the year ended 31 December 2012 and RMB5,034 million (US\$832 million) for the year ended 31 December 2013 and accounted for 8% of our total revenue for the year ended 31 December 2012 and 8% for the year ended 31 December 2013.

Display advertising consists of two formats — brand display and performance display advertisements:

Brand Display

Our brand display advertisements are charged primarily at cost per time or per impression and may be displayed in various formats on our online video, IM clients, portals and other platforms.

Performance Display

Performance display advertisements are charged primarily at cost per click and are offered mainly through the real-time bidding system of our targeted advertising platform. Advertisers can place performance display advertisements primarily on our SNS platforms and other platforms based on our user targeting algorithm.

eCommerce Transactions

Our eCommerce platforms historically comprised our B2C principal platform and marketplace, C2C marketplaces and other open platforms providing lifestyle services and online-to-offline eCommerce. Our online shopping services are offered free-of-charge for the buyers, while in certain marketplaces, merchants are charged service fees and commissions. For the year ended 31 December 2013, revenue from eCommerce transactions was RMB9,796 million (US\$1,618 million), accounting for 16% of our total revenue. Pursuant to the terms of our strategic cooperation agreement with JD.com, we disposed of our interests in our QQ Wanggou B2C and PaiPai C2C marketplace businesses, logistics personnel and assets, as well as a minority share in Shanghai Icton. In addition, JD.com will obtain the call option to acquire the remaining stake held by the Group in Shanghai Icton. Under the strategic cooperation agreement, JD.com will become Tencent's preferred partner for all physical goods eCommerce businesses. We believe this will allow us to best meet our goal of continuing to provide the best eCommerce experience for users of our platforms.

Others

Others include trademark licensing, software development services and software sales. Our revenue from others was RMB366 million for the year ended 31 December 2012 and RMB622 million (US\$102 million) for the year ended 31 December 2013.

Licensing and Development

We licence our trademarks from time to time to increase our brand recognition and further penetrate the consumer market in the PRC. We have licenced the QQ brand to manufacturers of various products, including electronic and consumer goods products. Our trademarks have also appeared along with trademarks of other corporate entities for joint marketing, co-branding and merchandising initiatives.

SALES AND MARKETING

We believe that our large QQ IM and Weixin user base in themselves, are key drivers of our business growth, as many Internet users in the PRC seek to join an established and vibrant online community. We market our value-added services primarily via our platforms and portals. In our online community, “word of mouth” is important for the adoption of value-added services as positive feedback from users can be quickly communicated via various channels, including QQ IM, Weixin, Qzone and Tencent Microblog. We market our advertising services through a dedicated sales force across the country.

Our sales and marketing efforts are supported by a network of marketing and sales teams throughout the PRC. We conduct a variety of online and offline marketing and promotion activities, including joint marketing activities with telecommunications operators and device manufacturers, in-game promotional events, marketing, and advertisements on our portals. For example, in 2012, we launched nationwide corporate branding and cross-platform promotional campaigns in the PRC for the 2012 Summer Olympic Games to enhance our brand image and media influence. Going forward, we will further enhance our position as a mainstream media platform in the PRC. For sales and marketing outside the PRC market such as the promotional campaigns for WeChat, we will also utilise both online and offline marketing and promotional activities to enhance our brand awareness. In July 2013, we launched a global TV campaign featuring our WeChat ambassador, footballer Lionel Messi, to promote brand building and user adoption.

DISTRIBUTION AND PAYMENT METHODS

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

Q-Coin Cards

We have arrangements with retailers and sub-distributors to sell prepaid Q-Coin cards at approximately 700,000 distribution points in the PRC, including Internet cafes, newsstands, convenience stores, software stores and book stores as of 31 December 2013. We sell prepaid Q-Coin cards in bulk at wholesale rates and do not offer any refund or return mechanisms after the Q-Coin cards are sold to the retailers and sub-distributors. Each prepaid Q-Coin card contains a unique access code and password that enables users to redeem the stored value to increase the balance of their individual online accounts or to purchase our services.

E-sales System

We have arrangements with Internet cafes and other retailers across the PRC to sell Q-Coins and usage credit through an e-sales system. Under the e-sales system, Internet cafes and other retailers purchase Q-Coins and usage credit in bulk at a wholesale rate from us via bank transfers, and then resell them to users at the local retail outlet. We do not offer any refunds after the Q-Coins and usage credit are sold to retailers. The e-sales system is an efficient way to sell our services to our customers because they can access our services immediately at the retailer's premises, and no physical distribution of prepaid cards is required.

Telecommunications Operators

A portion of the fees for our VAS are collected through China Mobile, China Unicom and China Telecom. The telecommunications operators collect the fees for our services from their customers and pass such fees to us after withholding their portion of their service fees and imbalance fees. On a periodic basis, we confirm with each telecommunications operator the subscription information and the data transmission volume between our network gateway and the operator's mobile gateway. Each affiliate or branch operator of the PRC telecommunications operators will also provide us with a summary on a monthly basis as to the net fees payable to us by the affiliate or branch operator. We also receive information on customer payment status and coordinate with the telecommunications operators for final billing and collection of revenue.

Online Banking

Users can directly purchase Q-Coins and a majority of our services and products through online payment systems that facilitate online payments from most major commercial banks within the PRC.

STRATEGIC RELATIONSHIPS

We are focused on enriching our value-added services and expanding the networks over which we deliver these services. We maintain strategic relationships with telecommunications operators in the PRC and major domestic and foreign device vendors and device manufacturers. In addition, while we develop a significant number of our services and products through in-house development teams, we also license and collaborate with an increasing number of third-party content providers, application developers, merchants and manufacturers.

Relationships with Telecommunications Operators

We have strategic relationships with the telecommunications operators in the PRC through which we use their networks to deliver our services and products. Our large user base and innovative applications increase demand for traffic on telecommunications networks. We currently maintain strategic relationships with China Mobile, China Unicom and China Telecom.

Relationships with Device Manufacturers

We currently work with a number of domestic and international major device manufacturers and we believe that our co-operation with them is mutually important and beneficial. Device manufacturers assist in the distribution of our services by making our client software and applications readily available in the devices they manufacture. At the same time, our applications create market demand for more sophisticated devices capable of supporting and interfacing with our applications.

Relationships with Content Providers and Application Developers

Our relationships with content providers and application developers are important to us as we strive to expand our value-added services. The goal of our content and application partnerships is to provide our users with a broad offering of attractive content and applications. We currently have strategic relationships with a number of content providers including mobile and portal content providers, news and printed media, music content providers, real-time financial quote services providers and game and application providers, and we expect to continue to grow these relationships going forward.

COMPETITION

The Internet industry in the PRC is rapidly evolving and competition is expected to further intensify. We face significant competition in almost every aspect of our business, particularly from companies that provide communication, online games, social networking, social media and/or other products and services. In recent years, more foreign investors have begun to explore the opportunities arising from the emerging PRC Internet industry. Many of these Internet start-ups and companies are well funded by private equity or venture capital funds, which have resulted in an increasingly competitive industry landscape. Our competitors for providing VAS in the PRC are mainly local Internet companies who offer various online games, SNS and other online entertainment and communication services, as well as competitors along the value chain of the telecommunications industry including mobile device manufacturers, chip manufacturers, telecommunications operators and mobile content/service providers. We compete for online advertising with other websites that sell online advertising services in the PRC through display and search advertising. In addition, we indirectly compete for advertising budgets with traditional advertising media in the PRC, such as terrestrial or satellite broadcasting media like television and radio stations, printed media such as newspapers and magazines, and major out-of-home media.

We believe that as we continue to expand our business scope, we will encounter new competitors and competitive environments that might evolve over time. In addition, we may face increased competition from international competitors that may establish joint venture companies with local companies to provide services based on the foreign investors' technology and experience developed in overseas markets.

We believe the principal competitive factors in our business include size of user base, community cohesiveness and interactivity, brand recognition, understanding of user needs, technology, product development capabilities and pricing. We aim to compete by continuing to develop, acquire and licence technologies, services and products that bring quality user experiences to our target users.

INTELLECTUAL PROPERTY

We regard our patents, copyrights, trademarks and other intellectual property as critical to our success. We rely primarily on a combination of patent, trademark, copyright, trade secret and other intellectual property-related laws and contractual restrictions to establish and protect our intellectual property rights. We require substantially all of our employees enter into agreements requiring them to keep confidential all proprietary and other confidential information relating to our customers, methods, technology, business practices and trade secrets and such obligations shall survive the expiration or earlier termination of their employment with us. Our employees are required to acknowledge and recognise that all inventions, trade secrets, works of authorship, developments and other processes, whether or not patentable or copyrightable, made by them during their employment are our property. We have independently developed key software used in our business and have registered a number of these software copyrights. We currently have over 1,700 patents that cover our self-developed key technologies and infrastructure.

Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our authorisation. Furthermore, the validity, enforceability and scope of protection of intellectual property rights in the Internet and telecommunications-related industries are uncertain and still evolving. Infringement and misappropriation of our intellectual property could materially harm our business. We have been and may in the future be involved as an applicant or opposing party in several administrative actions involving trademark disputes. See *“Risk Factors—Risks relating to Our Business—We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.”*

We have registered the domain names, including “www.qq.com” and “www.tencent.com”, with Internet Corporation for Assigned Names and Numbers and the domain names “www.tencent.com.cn” and “www.rtx.com.cn” with CNNIC, a domain name registration organisation in the PRC. In addition, we have registered over 2,500 domain names with various domain name registration services as of 31 December 2013.

Our “QQ (stylised)” mark, the “penguin” device, the “Weixin” and “WeChat” marks and many associated marks have been registered as trademarks in various classes in the PRC, Hong Kong and other jurisdictions. We have also registered our “QQ (stylised)” mark and the “penguin” device in various classes in jurisdictions including the United States, Japan, Hong Kong, Singapore, India, Malaysia, and the European Union. In addition, a series of “QQ” marks, the “penguin” device and the “Weixin” and “WeChat” marks have also been registered as copyrighted artworks in the PRC.

RESEARCH AND DEVELOPMENT

We believe that our ability to develop IM technology and Internet, mobile and online entertainment applications has been a key factor in the success of our business. To maintain and enhance our leadership position, we will need to continue to invest in research and development in order to enhance our services and products. Currently, our research and development staff constitutes over 40% of our full-time employees. Research and development expenses constituted 9%, 10% and 8% of our total revenues for the years ended 31 December 2011, 2012 and 2013, respectively. Our self-developed technologies include IM technology, mobile services, SNS and other interactive technologies. We also licence some services and technologies from third parties such as database technology and audio/video codec technology. We have established an in-house Research Institute and an integrated Customer Research and User Experience Design Center. We will continue to develop our core technologies in-house and when required, licence technology from third parties.

NETWORK INFRASTRUCTURE

Our network infrastructure is built to satisfy the requirements of our operations and to support the growth of our business. Our servers and routers are located across the PRC and our systems are designed for scalability and reliability to support growth in our user base. We believe we have developed and are operating one of the largest and most sophisticated cloud computing infrastructures in the PRC.

We believe that our current network facilities and broadband capacity provide us with sufficient capacity to carry out our current operations. We believe that we can expand our network facilities and broadband capacity as needed to accommodate our growth.

CUSTOMER SERVICE AND TECHNOLOGY SUPPORT

We place a high priority on providing our users with a consistently high quality of service and support. We have dedicated customer service teams to handle general product and service inquiries, billing questions, online security and technical support issues 24 hours a day, 7 days a week. Customers can access our customer service teams through various channels such as 24-hour customer service hotline, website and online self-help service center.

SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2013, none of our customers accounted for more than 5% of our total revenue. Our customers primarily included retailers and distributors who purchase prepaid Q-Coin cards from the Company, other users who purchase other products and services and advertisers who place advertisements on our platforms. For the year ended 31 December 2013, our largest supplier accounted for less than 25% of our total purchases from our suppliers. Our suppliers primarily include telecommunications operators, content providers, server and IT equipment suppliers and merchandise suppliers. As of 31 December 2013, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owned more than 5% of our issued capital) had an interest in any of the major customers or suppliers noted above.

The telecommunications operators typically settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit of 90 days after full execution of the contracted advertisement order.

EMPLOYEES

We have experienced significant growth during recent years; our employee count was 17,446, 24,160 and 27,492 as of 31 December 2011, 2012 and 2013, respectively. Most of our employees are based in the PRC.

The remuneration policy and package of our employees are periodically reviewed. Apart from pension funds and in-house training programs, discretionary bonuses, share awards, and share option may be awarded to employees according to the assessment of individual performance. Our total remuneration costs (including capitalised remuneration cost) were RMB4,879 million, RMB7,724 million and RMB10,364 million (US\$1,712 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

All of our management and key executives, and substantially all of our other employees, have entered into employment agreements with us, which contain confidentiality and non-competition provisions.

PROPERTIES AND FACILITIES

Our executive offices and our major operational facilities are located in Shenzhen. We own properties in a number of cities in the PRC, including Shenzhen, Beijing, Chengdu, Shanghai, Tianjin and Dalian and lease other offices in the PRC and abroad, including the United States, Thailand, India, Taiwan, South Korea and Hong Kong. We also maintain an Internet data center in Tianjin. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

INSURANCE

Insurance companies in the PRC offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business interruption insurance is available to a limited extent in the PRC, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to subscribe for such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in the PRC. Any business disruption or litigation, or any liability or damage to, or caused by, our facilities or our personnel may result in our incurring substantial costs and the diversion of resources. We carry mandatory automobile liability insurance and property insurance. Besides mandatory social insurance, we also maintain commercial health insurance and life insurance coverage for all our employees.

LEGAL PROCEEDINGS

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, unfair competitive practice claims, labour and employment claims and other matters. Internet media companies are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights and other allegations based on the content available on their website or services they provide. See “*Risk Factors—Risks Related to our Business—We face uncertainties regarding the legal liability for providing third-party services, content and applications on our platforms*”, “*Risk Factors—Risks Related to our Business—We may be subject to intellectual property claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business*” and “*Risk Factors—Risks Related to our Business—Legal proceedings or allegations of impropriety against us could have a material adverse effect on our reputation, results of operations and financial condition*”. Other than the matters set forth below, we are not currently a party to any material litigation or legal proceeding.

In August 2011, we brought a lawsuit to the Higher People’s Court of Guangdong Province against Beijing Qihoo Technology Co., Ltd. and Qizhi Software (Beijing) Co., Ltd. (together, “360”) for unfair competition, claiming that 360’s “Kou Kou Bodyguard” product improperly interfered with the lawful operation of our products, and we therefore claimed for damages in the amount of RMB125 million. The court held for us in April 2013 by ordering 360 to pay damages in the amount of RMB5 million. The verdict was upheld on appeal in February 2014 and is final.

In December 2011, we received a notice from the Higher People’s Court of Guangdong Province of claims brought by Beijing Qihoo Technology Co., Ltd. against us, alleging unfair competitive practices by us, including hindering the ability of our IM users to use online security products offered by 360 and offering our own online security products as a component of our IM user software. Beijing Qihoo Technology Co., Ltd. seeks, among other things, damages in the amount of RMB150 million and cessation of the aforementioned practices. In March 2013, the Higher People’s Court of Guangdong Province issued its first-instance judgement on this case rejecting all claims made by Beijing Qihoo Technology Co., Ltd. The latter refused to accept the judgement and appealed to the Supreme People’s Court. The court hearing was held on 26 November 2013 and the court’s judgement is pending as of the date of this Offering Circular.

In February 2012, Jiangping Xie, Cheng Feng, Ansoo Chang Wang and Monique Meng-en Wei (collectively, the “**Plaintiffs**”) initiated legal proceedings against us, claiming that our technical solution for implementing instant messaging through QQ IM software and QQ number infringed the plaintiff’s patent rights. The Plaintiffs seek an immediate stop to the use of this technical solution by us. In March 2013, Shenzhen City Intermediate People’s Court issued its first-instance judgement on this case, rejecting all claims made by the Plaintiffs. The Plaintiffs then appealed to Higher People’s Court of Guangdong Province. The court hearing was held on 11 March 2014 and the court’s judgement is pending as of the date of this Offering Circular.

Although such proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows. Regardless of the outcome, however, any litigation can have an adverse impact on us because of legal fees, diversion of management’s attention, reputational damages and other factors. In addition, it is possible that an unfavourable resolution of one or more legal or administrative proceedings, whether in the PRC or in another jurisdiction, could materially and adversely affect our financial position, results of operations or cash flows in a particular period or damage our reputation.

DIRECTORS AND MANAGEMENT

DIRECTORS

Our Board currently consists of seven Directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The following table sets out the name, age and position of our Directors as of the date of this Offering Circular:

Name	Age	Position
Ma Huateng	42	Executive Director/Chairman of the Board/ Chief Executive Officer
Lau Chi Ping Martin	40	Executive Director/President
Jacobus Petrus Bekker	61	Non-executive Director
Charles St Leger Searle	50	Non-executive Director
Li Dong Sheng.....	56	Independent Non-executive Director
Iain Ferguson Bruce.....	73	Independent Non-executive Director
Ian Charles Stone.....	63	Independent Non-executive Director

Executive Directors

Ma Huateng, age 42, is an Executive Director, Chairman of the Board and Chief Executive Officer of the Company. Mr. Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr. Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr. Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr. Ma is a deputy to the 5th Shenzhen Municipal People's Congress and the 12th National People's Congress. Mr. Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 20 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which holds shares of the Company and also a substantial shareholder of the Company.

Lau Chi Ping Martin, age 40, is an Executive Director and President of the Company. Mr. Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr. Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an Executive Director. Prior to joining the Company, Mr. Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr. Lau received a Bachelor of Science degree in Electrical Engineering from the University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr. Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong.

Non-executive Directors

Jacobus Petrus Bekker, age 61, has been a Non-executive Director since November 2012. Mr. Bekker is one of the founding members of M-Net/MultiChoice South Africa pay-television business in 1985. He was also a founder of the cellular telephony business MTN. From 1997 to March 2014, Mr. Bekker was Chief Executive Officer of Naspers Limited, a company listed on the Johannesburg Stock Exchange. He is at present the chairman designate. He served on the local organising committee for

the 2010 FIFA World Cup. Mr. Bekker obtained a Bachelor of Arts degree in law and an honours degree in languages at the University of Stellenbosch in 1974 and 1975 respectively. He also obtained a Bachelor of Laws degree from University of the Witwatersrand in 1978 and an MBA degree from Columbia University in 1984. Mr. Bekker was awarded an honorary doctorate degree in commerce from the University of Stellenbosch.

Charles St Leger Searle, age 50, has been a Non-executive Director since June 2001. Mr. Searle is currently Chief Executive Officer of Naspers Internet Listed Assets. Prior to joining the Naspers group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr. Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with Naspers. Mr. Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr. Searle has more than 20 years of experience in the telecommunications and Internet industries.

Independent Non-executive Directors

Li Dong Sheng, age 56, has been an Independent Non-executive Director since April 2004. Mr. Li is the Chairman and Chief Executive Officer of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr. Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the SEHK. Mr. Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on New York Stock Exchange Euronext. Mr. Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 19 years of experience in the information technology field.

Iain Ferguson Bruce, age 73, has been an Independent Non-executive Director since April 2004. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr. Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 49 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr. Bruce is the Chairman of KCS Limited, and is an independent non-executive director of Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. Mr. Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Louis XIII Holdings Limited (formerly known as Paul Y. Engineering Group Limited), a construction, engineering services and hotel development company, Sands China Ltd., an operator of integrated resorts and casinos, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the SEHK. Mr. Bruce is also an independent non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr. Bruce was an independent non-executive director of China Medical Technologies, Inc., a China-based medical device company that was listed on NASDAQ, up to 3 July 2012.

Ian Charles Stone, age 63, has been an Independent Non-executive Director since April 2004. Mr. Stone is currently an Advisor on International Projects for PCCW Limited and Chief Executive Officer of SITC (a PCCW joint venture) in Saudi Arabia. Since 2001 in PCCW he has been Chief Executive Officer of UK Broadband in UK and then PCCW Mobile in Hong Kong, followed by being the

Managing Director of the International Projects business. Mr. Stone has more than 43 years of experience in the telecom and mobile industries. He was Chief Executive Officer of SmarTone between 1999 and 2001 prior to which held various senior positions in telecom businesses of the First Pacific Group in Hong Kong and Philippines. Mr. Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom, including as Managing Director of CSL and Commercial Director of Hong Kong Telecom. Mr. Stone is a fellow member of The Hong Kong Institute of Directors.

Senior Management (Non-Directors)

Zhang Zhidong, age 42, Chief Technology Officer, has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr. Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr. Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr. Zhang has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and a Master's degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr. Zhang has more than 17 years of experience in the telecommunications and Internet industries. Mr. Zhang has resigned as Chief Technology Officer with effect from 20 September 2014. He will take up his new positions as Advisor Emeritus and the Honorary President of Tencent Academy from 20 September 2014 onwards.

Xu Chenye, age 43, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr. Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr. Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr. Xu received a Bachelor of Science degree in Computer Science from Shenzhen University in 1993 and a Master of Science degree in Computer Science from Nanjing University in 1996.

Ren Yuxin, age 38, Chief Operating Officer and President of Interactive Entertainment Group and Mobile Internet Group, joined the Company in 2000 and had served as General Manager for the value-added services development division and General Manager for Interactive Entertainment business division. Since September 2005, Mr. Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr. Ren has been appointed as Chief Operating Officer and is now in charge of the Interactive Entertainment Group, Mobile Internet Group and Social Network Group. Prior to joining the Company, Mr. Ren has worked in Huawei Technologies Co., Ltd. Mr. Ren received a Bachelor of Science degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008.

James Gordon Mitchell, age 40, Chief Strategy Officer and Senior Executive Vice President, joined the Company in August 2011. He is responsible for various functions, including the Company's strategic planning, strategic implementation, and investor relationships since 2012. Prior to joining the Company, Mr. Mitchell had worked in investment banking for 16 years. Most recently, Mr. Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analyzed Internet, entertainment and media companies globally. Mr. Mitchell received a degree from Oxford University and holds a Chartered Financial Analyst Certification.

Lau Seng Yee, age 47, Senior Executive Vice President and President of Online Media Group, joined the Company in 2006 and is responsible for overseeing the Company's online media business, and the development of the Company's online advertising business model, as well as the branding strategies for the Company. Mr. Lau is a seasoned professional in the media industry with more than 20 years

of solid experience working, with a rare 19 years of on-ground China market experience. In 2007, Mr. Lau sat in the advisory board for ad:tech, the globally renowned organisation for Online Marketing. Mr. Lau held the post of Vice President of China Advertising Association since 2007, as well as the Visiting Professor of Shanghai Normal University. In 2010, Mr. Lau was appointed as the Adjunct Professor of School of Journalism and Communication of Xiamen University. Prior to joining the Company, Mr. Lau was the Managing Partner of Publicis China and Chief Executive Officer for BBDO China. Before that, he also held senior management positions at Dentsu Young & Rubicam in Shanghai, and McCann-Erickson in Beijing and Hong Kong. Mr. Lau received an EMBA degree from Rutgers State University of New Jersey, USA. He also completed the Advanced Marketing Management program, and the Advanced Management Program (AMP) in Harvard Business School. In 2011, Mr. Lau was honored by New York based AdAge publication as one of “The World’s 21 Most Influential People in Marketing and Media Industry, 2009-2010”.

Tong Tao Sang, age 40, Senior Executive Vice President and President of Social Network Group, joined the Company in 2005. Mr. Tong started as a technical architect, and led the product development of social network platform of the Company, Qzone. Since May 2012, Mr. Tong has been responsible for the QQ messaging and social networking platforms, VIP subscriptions, the open-platform and cloud services. Prior to joining the Company, Mr. Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr. Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr. Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor in 1994 and a Master of Science degree in Electrical Engineering from Stanford University in 1997.

Lu Shan, age 39, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as General Manager for IM Product Divisions, Vice President for Platform Research and Development System and Senior Vice President for Operations Platform System. Since March 2008, Mr. Lu has been in charge of management of the Operations Platform System of the Company. Since May 2012, Mr. Lu has been in charge of management of Technical Engineering Group. Prior to joining the Company, he worked for Shenzhen Liming Network Systems Limited. Mr. Lu received a Bachelor of Science degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998.

Wu Xiaoguang, age 38, Senior Executive Vice President and Chief Executive Officer of Tencent E-Commerce Holdings Limited, joined the Company in 1999, he led the development and product planning for the Group’s core product, the QQ IM client software and has served as Project Manager for the research and development team of QQ, General Manager for IM product, General Manager for Internet business division and Senior Vice President of Internet Services Division. Since May 2012, Mr. Wu has been appointed as Chief Executive Officer of Tencent E-Commerce Holdings Limited, responsible for the development and management of e-Commerce business. Mr. Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. He received a Bachelor of Science degree in Weather Dynamics from Nanjing University in 1996 and an EMBA degree from China Europe International Business School (CEIBS) in 2008.

David A M Wallerstein, age 39, Senior Executive Vice President and Chairman of Tencent USA, joined the Company in 2001. He oversees the Company’s international business initiatives and is responsible for the Group’s activities in the United States. Prior to joining the Company, Mr. Wallerstein was the Vice President, Business Development of Naspers in China, responsible for investments and strategy. Prior to that, Mr. Wallerstein worked as a management consultant in China. Mr. Wallerstein received a Master’s degree in Political Economy from UC Berkeley and a Bachelor’s degree from the Jackson School at the University of Washington.

Zhang Xiaolong, age 44, Senior Vice President, joined the Company in March 2005 and served as the General Manager for the Guangzhou R&D division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr. Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin and QQ Mail. He is also responsible for the management and review of major innovation projects. Prior to joining the Company, Mr. Zhang developed Foxmail independently in 1997 as the 1st generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr. Zhang received his Master's degree in Telecommunications from Huazhong University of Science and Technology in 1994.

Ma Xiaoyi, age 40, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr. Ma served as a general manager of games division of OPTIC Communication Co., Ltd. Prior to that, Mr. Ma worked as a general manager in Shanghai EasyService Technology Development Ltd. Mr. Ma graduated from Shanghai Jiaotong University, and received an EMBA degree from Fu Dan University in 2008.

John Shek Hon Lo, age 45, Senior Vice President and Chief Financial Officer, joined the Company in 2004 and served as the Company's Financial Controller from 2004 to 2008. Mr. Lo was appointed as the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr. Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr. Lo received a Bachelor of Business in Accounting from Curtin University of Technology and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and HKUST.

Guo Kaitian, age 41, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of administration, legal affairs, government relations, public relations, charity fund, procurement as well as the functional management of the branches in Beijing, Shanghai and Chengdu. Mr. Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996.

Xi Dan, age 38, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr. Xi was responsible for HR management in ZTE Corporation and has more than 18 years of experience in IT and Internet industries. Mr. Xi received a Bachelor of Science degree in Applied Computer Science from Shenzhen University in 1996 and an MBA degree from Tsinghua University in 2005.

Board Committees

Audit Committee

The Audit Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Iain Ferguson Bruce as the Chairman. To retain independence and objectivity, the Audit Committee is chaired by an Independent Non-executive Director (with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of our existing external auditor. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system and nominate and monitor external auditor.

Corporate Governance Committee

The Corporate Governance Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Charles St Leger Searle as the Chairman. The primary duties of the Corporate Governance Committee are to develop and review our policies and practices on corporate governance and make recommendations to the Board of Directors.

Nomination Committee

The Nomination Committee currently comprises three Independent Non-executive Directors, one Non-executive Director and one Executive Director, with Mr. Ma Huateng as the Chairman. The primary duties of the Nomination Committee are to review and monitor the structure, size, composition and diversity (including without limitation, skills, knowledge, experience and background) of the Board of Directors regularly and make recommendations on any proposed changes to the Board of Directors to complement our corporate strategy.

Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-executive Directors and one Non-executive Director, with Mr. Ian Charles Stone as the Chairman. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration packages for our Directors, management and general staff and evaluate and make recommendations on employee benefit arrangements.

The Board has also established an Investment Committee and may establish other committees as necessary.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contributions to pension plans) paid or payable to our Directors for each of the years ended 31 December 2011, 2012 and 2013 was RMB67 million, RMB66 million and RMB70 million (US\$12 million), respectively.

During the years ended 31 December 2013 and 2012, no options/awarded shares were granted to any executive, non-executive or independent non-executive directors of the Company. For the year ended 31 December 2011, 35,000 awarded shares were granted to Independent Non-executive Directors of the Company and no options/awarded shares were granted to our other Executive, Non-executive or Independent Non-executive Directors.

During the years ended 31 December 2011, 2012 and 2013 and other than as set out below:

- No remuneration was paid by us or receivable by our Directors as an inducement to join or upon joining us.
- No compensation was paid by us to or receivable by our Directors or past Directors for the loss of office as a Director or for loss of any other office in connection with the management of our affairs.
- None of our Directors waived any compensation.

The remuneration of members of our senior management team is determined by the Remuneration Committee and is reviewed on an annual basis taking into consideration performance criteria such as the Company's operating results, individual performance and comparable market statistics.

The five highest paid individuals in the Group did not include any director during the year 2013. For the years ended 31 December 2011 and 2012, the five highest paid individuals in the group included two Directors, whose aggregate compensation has been included in the aggregate compensation of our Directors above. Including the compensation of such Directors, the aggregate emoluments (including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contributions to pension plans) paid/payable to the five highest paid employees during the years ended 31 December 2011, 2012 and 2013 were RMB104 million, RMB131 million and RMB552 million (US\$91 million). No compensation was paid/payable by us to such employees for the years ended 31 December 2011, 2012 and 2013 for loss of office in connection with the management of our affairs.

Except as disclosed above, no other payments have been paid or payable by us or any of our subsidiaries to our Directors, with respect to the years ended 31 December 2011, 2012 and 2013.

GENERAL REGULATION ON INTERNET AND TELECOMMUNICATIONS INDUSTRIES

The following discussion summarises certain aspects of PRC law and regulations, which are relevant to our operations and business. For a description of the legal risks relating to government regulation of our business, see “*Risk Factors*”.

CORPORATE LAWS AND INDUSTRY CATALOGUE RELATING TO FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (“**Company Law**”) (公司法), effective in 1994, amended in December 1999, August 2004, October 2005, and December 2013 (effective as of 1 March 2014). The Company Law is applicable to our PRC subsidiaries and consolidated affiliated entities unless the PRC laws on foreign investment have stipulated otherwise.

The establishment, approval, registered capital requirement and day-to-day operational matters of wholly foreign-owned enterprises are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (外資企業法) effective in 1986, as amended in 2000, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (外資企業法實施細則) effective in 1990, as amended in 2001.

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment (“**Catalogue**”) (外商投資產業指導目錄), which was promulgated and has been amended from time to time and most recently in December 2011, by the MOFCOM and the National Development and Reform Commission (“**NDRC**”). The Catalogue divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are generally permitted to receive foreign investment unless specifically restricted by other PRC regulations.

Establishment of wholly foreign-owned enterprises is generally permitted in encouraged industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects may also be subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category.

REGULATORY AUTHORITIES

Certain areas related to the Internet, such as telecommunications, Internet information services, international connections to computer information networks, information security and censorship are regulated heavily in the PRC and are covered extensively by a number of existing laws and regulations issued by various PRC governmental authorities, including but not limited to:

- China Securities Regulatory Commission (“**CSRC**”);
- GAPP;
- MIIT;
- MPS;
- MOC;
- MOFCOM;
- the People’s Bank of China (“**PBOC**”);
- the State Council Information Office (“**SCIO**”);

- SAFE;
- the State Administration for Radio, Film and Television (“**SARFT**”);
- SAIC;
- the State General Administration of Press, Publication, Radio, Film and Television (“**SAPPRFT**”);
- the State Internet Information Office (“**SIIO**”).

GENERAL REGULATIONS ON INTERNET AND TELECOMMUNICATIONS INDUSTRIES

Regulations on Value-added Telecommunications Services

On 25 September 2000, the State Council promulgated the Telecommunications Regulations (“**Telecom Regulations**”) (電信條例) which draws a distinction between “basic telecommunication services” and “value-added telecommunication services”. Pursuant to the currently effective Catalogue of Telecommunications Business (電信業務分類目錄), “value-added telecommunication services” cover (i) online data processing and transaction processing, (ii) domestic multi-party communication service, (iii) domestic Internet protocol-virtual private network (IP-VPN), (iv) Internet data service, (v) storage-transfer service, (vi) call center service, (vii) Internet access service, and (viii) information service. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating licence from MIIT or its local branch.

On 25 September 2000, the State Council promulgated the Administrative Measures on Internet Information Services (“**Internet Measures**”) (互聯網信息服務管理辦法). According to the Internet Measures, Internet content provision services (“**ICP**”) is a subcategory of value-added telecommunications services and ICP operators must obtain an ICP Licence (“**ICP Licence**”) from MIIT or its local branch before engaging in any commercial ICP operations within the PRC. When the Internet information service involves certain particular areas, such as news, publication, education, medical care, pharmaceuticals, and medical equipment, prior approval from the respective regulatory authorities must be obtained prior to applying for the ICP Licence. SIIO and MIIT jointly released a draft bill for amended Internet Measures in June 2012, although such bill has not been passed as of the date hereof.

On 1 March 2009, MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licence (“**Telecom Licence Measures**”) (電信業務經營許可管理辦法), effective on 10 April 2009, which replaced the previously issued Measures on Administration of Telecommunications Business Operating Licence (電信業務經營許可證管理辦法). The Telecom Licence Measures set forth the qualifications and procedures for obtaining the ICP Licence, the supervision obligation of telecommunications service operators and the annual review system. An ICP operator conducting value-added telecommunications services within a single province must obtain the ICP Licence from MIIT’s local branch, while an ICP operator providing value-added telecommunication services across different provinces must obtain a trans-regional ICP Licence directly from MIIT and file with the relevant MIIT’s local branches. According to the Telecom Licensing Measures, ICP operators are also required to lodge certain documents with the competent authorities in first quarter of each year and go through the annual inspection process with respect to their operations during the previous year.

In July 2013, MIIT promulgated the Regulations on Protection of Personal Information of Telecommunications and Internet Users (“**Regulations on Network Information Protection**”) (電信和互聯網用戶個人資訊保護規定), effective 1 September 2013, to enforce the Decision on Strengthening Network Information Protection (全國人民代表大會常務委員會關於加強網路資訊保護的決定), promulgated by the Standing Committee of the PRC National People’s Congress in December

2012, with the goal of enhancing and protecting information security and privacy on the Internet. The Regulations on Network Information Protection require Internet operators to take various measures to ensure the privacy and confidentiality of the user information, including supervision and management over those third-party services provided by Internet operators.

Regulations on Foreign Investment in the Value-added Telecommunications Services

Foreign investment in the telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (“**FITE Regulations**”) (外商投資電信企業管理規定), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008. Pursuant to the FITE Regulations, a foreign investor must establish a foreign invested telecommunications enterprise (“**FITE**”) with a PRC joint venture partner, to engage in basic telecommunications and value-added telecommunications businesses. The foreign investor’s ultimate equity ownership in a value-added telecommunications business must not exceed 50%. Moreover, for a foreign investor to establish a new FITE or acquire any equity interest in an existing value-added telecommunications business in the PRC, it must demonstrate a good track record and experience in operating value-added telecommunications services. Foreign investors that meet these requirements must obtain approvals from MIIT and MOFCOM or their local branches.

On 13 July 2006, MIIT issued the Circular on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (關於加強外商投資經營增值電信業務管理的通知) (“**the MIIT Circular**”), which emphasises that a foreign investor planning to invest in the value-added telecommunications sector in the PRC must set up a FITE and apply for the applicable telecommunications business operation licence. A domestic value-added telecommunications services provider shall not lease, transfer or sell any telecommunications business operation licence to a foreign investor, or provide resources, sites, facilities or other conditions for a foreign investor in any way to illegally operate a telecommunications business in the PRC.

According to the MIIT Circular, if a foreign investor co-operates with a domestic value-added telecommunications services provider, the following requirements apply: (1) the domain names and registered trademarks used by the value-added telecommunications services provider must be legally owned by itself or its shareholder; (2) the value-added telecommunications services provider must have the necessary premises and facilities for its approved business operations and maintain such facilities in the regions covered by its licence; and (3) the value-added telecommunications services provider must safeguard its network and Internet security in accordance with standards set forth in the Baseline Requirements for Network and Information Security of Value-added Telecommunication Services (增值電信業務網絡信息安全保障基本要求) (YDN126-2005).

On 28 September 2009, GAPP, the National Copyright Administration, and the National Office of Combating Pornography and Illegal Publications jointly issued the Notice on Implementing the Provisions of the State Council on “Three Determinations” and the Relevant Explanations of the State Commission Office for Public Sector Reform and further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (“**Circular 13**”) (關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡游戲前置審批和進口網絡游戲審批管理的通知). Circular 13 states that foreign investors are not permitted to invest in online game operating businesses in the PRC via wholly owned, PRC-foreign equity joint ventures or co-operative joint ventures or to exercise control over or participate in the operation of domestic online game businesses through indirect means, such as other joint venture companies or contractual or technical arrangements. Regarding the risks with respect to the MIIT Circular and Circular 13, please see “Risk Factors—Risks Related to our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating our services in the PRC do not comply with PRC governmental restrictions on foreign investment in value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

Regulations on the Order of the Internet Information Service Market

On 29 December 2011, the MIIT promulgated Certain Rules on Regulating the Order of the Internet Information Service Market (“**Internet Market Order Rules**”) (規範互聯網信息服務市場秩序若干規定), effective from 15 March 2012. The Internet Market Order Rules aim to regulate the order of the Internet information service market, protect the legitimate rights and interests of Internet information service providers and users, and promote the healthy development of the Internet industry. Pursuant to the Internet Market Order Rules, an Internet information service provider shall offer services under the principles of equality, voluntariness, fairness and integrity, and shall not commit acts infringing the legitimate rights and interests of other service providers and users such as maliciously interfering in services offered by other Internet information service providers at user terminals, or maliciously interfering in the downloading, installation, operation and upgrading of software and other products related to Internet information services, or refusing, postponing or ceasing to provide users with Internet information services or products without any proper reason. An Internet information service provider may be subject to administrative penalties, including warnings and fines and other legal liabilities, for violation of the Internet Market Order Rules.

Regulations on Internet Content Services

National security considerations are an important factor in the regulation of Internet content in the PRC. Under the Internet Measures, violators may be subject to penalties, including criminal sanctions, for the production, duplication, posting or dissemination of any Internet content that:

- opposes the fundamental principles stated in the PRC Constitution;
- jeopardises national security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- undermines PRC religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- disseminates obscenity, pornography, gambling, violence, murder, terror or induces crimes;
- humiliates or defames any other person, or infringes the legal interests of any other person;
or
- is otherwise prohibited by the laws or administrative regulations.

ICP operators are required to monitor their websites. They shall not post or disseminate any content that falls within these prohibited categories and must remove any such content from their websites. Those who fail to observe the requirements shall be sanctioned by the public security or State security authorities in accordance with the Regulation on Public Security Control and Sanctions of the People’s Republic of China (中華人民共和國治安管理處罰條例) and the Regulation on Protection of Security in International Connection of Computer Information Networks (計算機信息網絡國際聯網安全保護管理辦法) as well as other laws and administrative regulations. In the case of commercial Internet information service providers who fail to observe the requirements, they shall be ordered by the authority issuing the Service Licence to temporarily suspend their services or their Service Licences may be revoked while non-profit Internet information service providers shall be ordered by the record-filing authority to temporarily or permanently shut down their websites.

On 28 December 2000, the Standing Committee of National People's Congress, the PRC national legislative body, adopted the Decisions on Maintenance of Internet Security ("**Internet Security Decisions**") (關於維護互聯網安全的決定), which provide that individuals or entities may be subject to criminal charges for certain misconduct which threaten or harm (i) the Internet operation safety, (ii) national security and social stability, (iii) economic system and social management and (iv) legal rights and interests of individuals, legal persons and other organisations.

On 13 April 2009, MIIT promulgated the Implementation Measures on Internet Security and Information Report (互聯網網路安全資訊通報實施辦法), which requires Internet operators to report certain information that will pose as a concern of Internet security, as specified thereunder.

On 21 January 2010, MIIT promulgated the Administrative Measures on the Security and Protection of Communication Networks (通信網路安全防護管理辦法), according to which, Internet operators shall file the certain information regarding its operated public networks and Internet with MIIT.

The PRC Supreme People's Court and the Supreme People's Procuratorate jointly issued the Interpretations and the Interpretations II, on Several Issues Relating to the Specific Application of Laws in Handling Criminal Cases Involving the Use of Internet, Mobile Communication Terminal or Information Service Station for Producing, Duplicating, Publishing, Selling or Disseminating Obscene Electronic Information (最高人民法院、最高人民檢察院關於辦理利用互聯網、移動通訊終端、聲訊台製作、複製、出版、販賣、傳播淫穢電子資訊刑事案件具體應用法律若干問題的解釋和解釋(二)), respectively, on 3 September 2004, and 4 February 2010. According to these judicial interpretations, the executive assuming direct responsibility and other directly responsible personnel of the Internet service operator, shall be convicted and punished accordingly if the Internet service operator knowingly provides any service to an obscene website or an obscene information provider.

Regulations on Internet Cultural Activities

On 10 May 2003, MOC promulgated the Provisional Regulations for the Administration of Internet Culture ("**Internet Culture Regulations**") (互聯網文化管理暫行規定), which were revised in July 2004 and February 2011 and the revised Internet Culture Regulations became effective on 1 April, 2011. The Internet Culture Regulations apply to entities that engage in activities related to "Internet cultural products", which are classified as cultural products produced, disseminated and circulated via the Internet, including Internet cultural products: (i) specifically produced for the Internet, such as online music entertainment, online games, network games, network performance programs, online performing arts, online artworks and online animation features and cartoons and so forth; and (ii) converted from music entertainment, games, performance programs, performing arts, artworks and animation features and cartoons and disseminated via the Internet.

Pursuant to the Provisional Regulations for the Administration of Internet Culture (互聯網文化管理暫行規定) promulgated by MOC on 17 February 2011 and effective on 1 April 2011, an entity is required to obtain a Network Culture Operating Permit from the relevant local branch of MOC, in addition to the ICP Licence if it intends to commercially engage in any of the following types of activities:

- (i) production, duplication, import, distribution or broadcasting of Internet cultural products;
- (ii) publication of Internet cultural products on the Internet or transmission of Internet cultural products via an information network, such as the Internet and mobile networks, to a computer, fixed-line or mobile phones, television sets or gaming consoles for the purpose of browsing, reviewing, using or downloading such products by online users; or
- (iii) exhibitions or contests related to Internet cultural products.

On 12 August 2013, MOC promulgated the Administrative Rules on Self-Censorship by Internet Culture Operators ("**Internet Culture Operators Self-Censorship Measures**") (網絡文化經營單位內

容自審管理辦法), effective as of 1 December 2013, according to which, each Internet cultural operator shall undertake an internal review by at least two qualified staff members on the content of the Internet cultural products before they are made public which is verified by the manager in charge of such review.

REGULATIONS ON ONLINE GAMING

Regulations on Electronic and Internet Publications

On 21 February 2008, GAPP issued the Regulations on Administration of Publishing of Electronic Publications (“**Electronic Publications Regulations**”) (電子出版物出版管理規定), which became effective from 15 April 2008 and repealed the prior Regulations on Administration of Electronic Publications issued on 30 December 1997. Pursuant to the Electronic Publications Regulations, the PRC implements a licensing system for publishing of electronic publications, which include mobile games and online games. A company wishing to publish electronic publications must meet the specified requirements with respect to registered capital, equipment, premise, organisational structure and obtain an approval from GAPP. With such approval, the company must then register with the local branch of GAPP and obtain an Electronic Publications Publishing Licence. A company engaged in publishing of electronic publications is also required to go through a regular inspection process every two years, during which the company’s registration, qualification, business operation, compliance and internal management will be reviewed by the local branch of GAPP.

On 27 June 2002, GAPP and MIIT jointly issued the Interim Regulations on Administration of Internet Publication (“**Internet Publication Regulations**”) (互聯網出版管理暫行規定), effective from 1 August 2002. These regulations require business operations involving Internet publishing to be approved by GAPP. Internet publishing is defined as any act by an Internet information service provider to select, edit and process works created by itself or others and to make such works publicly available on the Internet.

Under Circular 13, provision of online games via Internet is regarded as an Internet publishing activity and online game operators must be examined and approved by GAPP. With such approval, the online game operator will receive an Internet Publishing Licence specifically allowing for online game operation business. The notice prohibits any direct foreign investment in online game operation business. Furthermore, it prohibits foreign control or participation in domestic companies’ online game operation business in an indirect way such as entering into technical support agreements or in any other disguised manner.

Regulations on Online Game Operations

Online game operations are covered extensively by a number of existing laws and regulations issued by various PRC governmental authorities, including MIIT, GAPP and MOC. Under the Electronic Publication Regulations and other regulations issued by GAPP, online games are classified as a kind of electronic production and publishing of online games is required to be done by licenced electronic publishing entities with standard publication codes. The Internet Publication Regulations require online game operators, to obtain an Internet Publication Licence from GAPP prior to directly making its online games publicly available in the PRC. Under the revised Internet Culture Regulations, which became effective on 1 April 2011, online game operators are required to apply to the local branch of MOC for a Network Culture Operating Permit as online games fall within the scope of Internet cultural products.

On 5 March 2009, MIIT issued the Measures on Administration of Software Products (“**Software Measures**”) (軟件產品管理辦法), which became effective on 10 April 2009 and replaced the previous measures governing software products issued on 27 October 2000. The Software Measures regulate development, production, sales, import and export of software products in the PRC with the view to promote the development of the PRC software industry. The Software Measures provide a registration and filing system with respect to software products made in or imported into the PRC. These software

products may be registered with the competent local software registration authority authorised by the local branch of MIIT. Registered software products developed in China may enjoy preferential treatment and encouragement policies pursuant to the relevant software industry regulations. Software products can be registered for five years, and registration can be renewed upon expiration. In order to further implement the Computer Software Protection Regulations (計算機軟件保護條例) promulgated by the State Council on 20 December 2001, and revised in January 2011 and January 2013, the National Copyright Administration of the PRC issued the Computer Software Copyright Registration Procedures (計算機軟件著作權登記辦法) on 20 February 2002, which apply to software copyright registration, licence contract registration and transfer contract registration.

According to the Circular on Purifying Online Games (關於淨化網絡遊戲工作的通知) jointly issued by MOC, MIIT, SAIC and other relevant government authorities on 9 June 2005, if an online game is not registered and filed under the Software Measures, it may not be released in the PRC.

Regulations on Online Game Censorship and Imported Games

On 14 May 2004, MOC issued the Notice Regarding the Strengthening of Online Game Censorship (“**Censorship Notice**”) (文化部關於加強網絡遊戲產品內容審查工作的通知), which mandates the establishment of a new committee under MOC that will screen the content of imported online games. In addition, all imported and domestic online games are required to be examined and filed with MOC.

On 12 July 2005, MOC and MIIT promulgated the Opinions on the Development and Administration of Online Games (關於網絡遊戲發展和管理的若干意見), reflecting the government’s intent to both foster and control the development of the online game industry in the PRC. In addition, MOC will censor online games that “threaten state security”, “disturb the social order”, or contain “obscenity” or “violence.”

Pursuant to Circular 13, online game operators must provide each online game to GAPP for examination and approval prior to its online release. Circular 13 further provides that GAPP is responsible for the examination and approval of any imported online games. Any online game operator that intends to operate imported online games shall first apply for approval on copyright registration certificate from the relevant local branch of the Copyright Administration and then pre-approval from GAPP.

On 13 November 2009, MOC issued its Notice Regarding Improving and Strengthening the Administration of Online Game Content (“**Online Game Content Notice**”) (文化部關於改進和加強網絡遊戲內容管理工作的通知), calling for online game operators to improve and innovate their game models. Emphasis is placed specifically on the following: (i) mitigating the pre-eminence of the “upgrade by monster fighting” model, (ii) imposing more severe restraints on the “player kill” model, (iii) restricting in-game marriages among game players; and (iv) improving the enforcement of the legal requirements for the registration of minors and gaming time-limits.

The Online Game Content Notice also requires online game operators to set up a committee to carry out game content self-censorship. The person responsible for such self-censorship must receive training from MOC or its local branch. MOC also intends to introduce a training and evaluation system for the persons in charge of research and development and operations at online game companies. In addition, MOC intends to formulate technical standards and norms for game development in order to provide technological support for original domestic games. The development and operation of “thoughtful, funny and educational” online games is also to be encouraged.

On 3 June 2010, MOC issued the Interim Measures for the Administration of Online Games, which became effective on 1 August 2010 (“**Online Game Measures**”) (網絡遊戲管理暫行辦法). The Online Games Measures govern the activities with respect to online game development and operations,

issuance of virtual currency, and provision of virtual currency exchange service. The Online Game Measures require that domestic online games must be filed with MOC within 30 days of their initial online release and in case of any substantial change. The Online Game Measures also require that all imported online games be subject to content review by MOC prior to their online release.

On 29 July 2010, MOC issued the Notice of the Ministry of Culture on the Implementation of the Interim Measures for the Administration of Online Games (文化部關於貫徹實施《網絡遊戲管理暫行辦法》的通知), which took effect on date of its issuance. This notice provides details as to the requirements relating to applications for Network Culture Operating Permits and the MOC's content review of online games. In addition, the notice emphasises the protection of minors playing online games and requires online game operators to promote real-name registration users of their games.

The Internet Culture Operators Self-Censorship Measures require each online game operator to establish a self-censorship system and to undertake an internal review by at least two qualified staff members on the content of online games before they are made public, to be verified by the manager in charge of such review.

Regulations on Web-based Games

Generally speaking, Circular 13 and Online Game Measures include web-based games within the definition of online games. Prior to the promulgation of Circular 13 and the Online Game Measures, both GAPP and MOC attempted to regulate the operation and operators of MMORPGs, although there was no specific regulation or policy that included web-based games as online games. However, due to the growing popularity of social and web-based games, these games are coming under increasing scrutiny with efforts being made to limit the role and impact of foreign companies in this sector. GAPP and MOC have both indicated that social and web-based games should be regulated similarly to other online games.

Regulations on Virtual Currency

On 15 February 2007, MOC, PBOC and other relevant government authorities jointly issued the Notice on the Reinforcement of the Administration of Cybercafe and Online Games (“**Cybercafe Notice**”) (關於進一步加強網吧及網絡遊戲管理工作的通知). Under the Cybercafe Notice, PBOC is directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the real economic and financial systems. The Cybercafe Notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual users should be strictly limited, with a strict and clear division between virtual transactions and real eCommerce transactions. This notice also provides that (i) virtual currency should only be used to purchase virtual items provided in the online games by the online game operator; (ii) if the customers would like to redeem the virtual currency for legal currency, the amount so redeemed shall not exceed the original purchase amount; and (iii) the activity of buying and reselling virtual currency for a profit is strictly prohibited.

On 4 June 2009, MOC and MOFCOM jointly issued the Notice on the Strengthening of Administration on Online Game Virtual Currency (“**Virtual Currency Notice**”) (關於加強網絡遊戲虛擬貨幣管理工作的通知). Virtual currency is broadly defined in the Virtual Currency Notice as a type of virtual exchange instrument issued by Internet game operation enterprises, purchased directly or indirectly by the game user by exchanging legal currency at a certain exchange rate, saved outside the game programs, stored in servers provided by the Internet game operation enterprises in electronic record format and represented by specific numeric units. Virtual currency is used to exchange Internet game services provided by the issuing enterprise for a designated extent and time, and is represented by several forms, such as prepaid game cards, prepaid amounts or Internet game points. Game props, which are virtual items or equipment obtained from playing online games, are excluded from the definition of virtual currency. The Virtual Currency Notice specifically states that game props should not be confused with virtual currency and that MOC, jointly with other authorities, will issue separate rules to govern them.

The Virtual Currency Notice divides the virtual currency business into (i) enterprise engaging in virtual currency issuing service, which is an online game operating enterprise engaged in the issuance and provide of virtual currency use service and (ii) enterprise engaging in virtual currency trading service, which is an enterprise providing a trading platform between the users in respect of the virtual currency.

On 20 July 2009, MOC promulgated the Filing Guidelines on Online Game Virtual Currency Issuing Enterprises and Online Game Virtual Currency Trading Enterprises (“網絡遊戲虛擬貨幣發行企業”、“網絡遊戲虛擬貨幣交易企業”申報指南), which specifically defines “issuing enterprise” and “trading enterprise” and stipulates that a single enterprise may not operate both types of business. MOC also established that the activities of issuing virtual currency fall within the scope of “online game operations” and those enterprises must apply for a Network Culture Operating Permit.

In addition, when applying for an online game virtual currency issuing service business, an issuing enterprise must file detailed information about its virtual currency, including form, extent of circulation, unit purchase price, and how the virtual currency will be refunded upon termination of services. Issuing enterprises are prohibited from altering the unit purchase price of the virtual currency after filing, and must complete filing procedures with MOC or its local branch before issuing new types of virtual currency.

Pursuant to Virtual Currency Notice, virtual currency may not be used to pay for any services outside of the online game realm. The Virtual Currency Notice prohibits online game operators from awarding game props or virtual currency through lucky draws or lotteries that require users to first contribute cash or virtual currency.

Regulations on Anti-fatigue System and Real-Name Registration System

On 15 April 2007, MIIT, GAPP, the Ministry of Education and five other government authorities jointly issued the Notice on the Implementation of Online Game Anti-fatigue System to Protect the Physical and Psychological Health of Minors (“**Anti-fatigue Notice**”) (關於保護未成人身心健康實施網絡遊戲防沉迷系統的通知). Pursuant to the Anti-fatigue Notice, online game operators are required to install an “anti-fatigue system” that discourages game players under 18 years of age from playing games for more than five hours per day. Under such anti-fatigue system, three hours or less of continuous play by minors is considered to be “healthy,” three to five hours to be “fatiguing,” and five hours or more to be “unhealthy.” Game operators are required to reduce the value of in-game benefits to a game player by half if the player has reached the “fatiguing” level, and to zero for the “unhealthy” level. To identify whether a game player is a minor and thus subject to the anti-fatigue system, online game operators must also use a real-name registration system.

On 1 July 2011, the GAPP, the Ministry of Education, MPS, MIIT and four other governmental authorities issued the Notice regarding Launch of Real-Name Verification for Online Game Anti-fatigue System (“**Real-Name Verification Notice**”) (關於啓動網絡遊戲防沉迷實名驗證工作的通知). Pursuant to the Real-Name Verification Notice, starting from 1 October 2011, real-name verification for online game (excluding mobile online games) anti-fatigue systems shall be launched nationwide and the National Center for Citizen’s Identification Card Number Search Service (“**ID Card Search Center**”), an affiliate of MPS, is responsible for the real-name verification for online game anti-fatigue systems. The ID Card Search Center shall verify the identification information reported by online game operators in a timely manner and effectively in accordance with the Procedures for Real-Name Verification for Online Game Anti-fatigue System (網絡遊戲防沉迷實名驗證流程). Online game operators shall be responsible for the recognition of real-name registration information of users, report any user identification information that needs to be verified and include users who have been determined to have provided fake identification information to the online game anti-fatigue system by real-name verification.

REGULATIONS ON INTERNET VALUE-ADDED SERVICES

Regulations on Instant Messaging and Short Messaging Services

There are no specific provisions under PRC regulations that regulate IM services. Instead, IM services are allowed to be provided by an ICP operator holding an ICP Licence without the need for separate and additional approvals from MIIT or any other government authorities. Therefore, the IM service will not be described as a particular service item appearing on the ICP Licence.

On 15 April 2004, MIIT issued the Notice on Certain Issues Regarding Standardising Short Messaging Service (“**SMS Notice**”) (關於規範短信息服務有關問題的通知). Pursuant to the SMS Notice, only duly approved ICP operators are permitted to provide SMS. The SMS Notice provides that an ICP operator engaging in SMS services must prominently advise users of the charge standards, collection methods and subscription cancellation procedures. In addition, the ICP operator shall provide SMS services strictly in accordance with users’ requirements. Further, the ICP operators must examine the content of SMS to ensure compliance with PRC law. The service systems of the telecommunications operator and ICP operator must automatically record and keep for a period of five months information including the time of transmission and receipt, telephone numbers and codes of the sending and receiving terminal devices.

Regulations on Internet Bulletin Board Services and Microblog Services

Microblog or other SNS activities provided by an ICP operator are usually regarded as a type of BBS service and therefore an ICP Licence specifying the BBS service is required. Where the BBS service provided by the ICP operator involves any Internet cultural activities, such as online contests, online games or music, a Network Culture Operating Permit is also required.

On 7 March 2001, MIIT issued a Notice on Further Strengthening Administrative Regulation on Internet Information Bulletin Board Services (“**BBS Notice**”) (關於進一步做好互聯網信息服務電子公告服務審批管理工作的通知). The BBS Notice regulates BBS services from six aspects: (i) the category and content of the forum shall be clearly specified; (ii) the editor of this BBS forum shall regulate the forum and if there are any improper content that violate applicable regulations, the website and the editor in charge of such forum shall be liable; (iii) user registration prior to using the BBS services; (iv) the rules governing the BBS services and the ICP operator shall be published in a conspicuous position on the webpage of the BBS forum; (v) the information posted by the BBS user shall be automatically monitored and manually filtered before release on the Internet; and (vi) if the website engages in the Internet information service business and provides information relating to topics such as news, press, education, health care, medicine and medical equipment, prior approval from the relevant authorities shall be obtained before applying for the ICP Licence to the local branch of MIIT.

On 16 December 2011, the Information Office of Beijing Municipal Government, Beijing Municipal Public Security Bureau, Beijing Communications Administration Bureau and the Internet Information Office of Beijing Municipality jointly promulgated the Several Provisions of the Beijing Municipality on the Administration and Development of Microblog in Beijing (“**Beijing Microblog Provision**”) (北京市微博客發展管理若干規定). Beijing Microblog Provision applies to websites within the jurisdiction of the Beijing Municipality that provide microblog services and their microblog users. Pursuant to the Beijing Microblog Provision, websites that provide microblog services shall establish and improve their information content examination system to monitor the creation, copying, publishing and dissemination of microblog information content. Entities or individuals who register microblog accounts to create, copy, publish and disseminate information content shall use true identity information and shall not register with fake or fraudulent resident identity information, enterprise registration information or organisation code information. Websites that provide microblog services shall guarantee the authenticity of the registration information of users.

Regulations on Internet News Publication and Dissemination

On 7 November 2000, SCIO and MIIT jointly promulgated the Provisional Measures for Administration of Internet Websites Carrying on the News Publication Business (“**Internet News Measures**”) (關於互聯網站從事登載新聞業務管理暫行規定). These measures require an ICP operator, other than a government authorised news unit/organisation, to obtain the approval from SCIO to publish news on its website or disseminate news through the Internet. Furthermore, any disseminated news is required to be obtained from government-approved sources based on contracts between the ICP operator and these sources or produced by the ICP operators themselves. The copies of such contracts must be filed with the news office of the provincial-level government.

On 25 September 2005, SCIO and MIIT jointly issued the Provisions on the Administration of Internet News Information Services (互聯網新聞信息服務管理規定), which requires Internet news information service organisations to obtain the Internet News Information Service Licence from SCIO before they can provide the approved service and file an annual business report to SCIO or its local branch.

Regulations on Internet Medicine Information Services and Internet Medical Care Information Services

On 8 July 2004, State Food and Drug Administration (“**SFDA**”) promulgated the Administration Measures on Internet Medicine Information Service (“**Medicine Information Measures**”) (互聯網藥品信息服務管理辦法). The Medicine Information Measures set forth the classification, application, approval, content, qualifications and requirements for Internet medicine information services. Under the Medicine Information Measures, an ICP operator that provides medicine information service shall obtain an Internet Medicine Information Service Qualification Certificate, which is valid for five years, from the SFDA local branch before it applies for the ICP Licence. The ICP operator must clearly display its Internet Medicine Information Service Qualification Certificate number on its website.

On 20 September 2005, the SFDA promulgated the Interim Provisions on the Approval of Internet Drug Transaction Services (“**Drug Transaction Provisions**”) (互聯網藥品交易服務審批暫行規定), effective on 1 December 2005. The SFDA issued two notices concerning the implementation of the Drug Transaction Provisions on 25 October 2005 and 3 March 2006, respectively. According to the Drug Transaction Provisions and these implementation notices, enterprises engaging in the Internet drug transaction services shall obtain Internet drug transaction services organisation qualification certificates. Internet drug transaction services include services provided for Internet drug transactions among pharmaceutical production enterprises, pharmaceutical trading enterprises and medical institutions, services provided for Internet drug transactions conducted by pharmaceutical production enterprises and pharmaceutical wholesale enterprises through their own websites with enterprises other than the members of their enterprise groups, as well as services provided for Internet pharmaceutical transactions by individual consumers.

On 1 May 2009, Ministry of Health (“**MOH**”) promulgated the Administration Measures on Internet Medical Care Information Service (“**Medical Information Measures**”) (互聯網醫療保健信息服務管理辦法), which became effective on 1 July 2009. Under the Medical Information Measures, an ICP operator that provides medical care information service shall obtain a consent letter for Internet Medical Care Information Service, which is valid for two years, from the MOH local branch before it applies for the ICP Licence. Online medical advertisements must also comply with the Measures for the Administration of Medical Advertisements (醫療廣告管理辦法) jointly promulgated by MOH and SAIC on 27 September 1993 and amended on 10 November 2006.

On 29 October 2013, SFDA promulgated the Notice on Strengthening the Management over Online Drug Sales (“**Online Drug Sales Notice**”) (國家食品藥品監督管理總局關於加強互聯網藥品銷售管理的通知) to enhance the administration over Internet pharmaceutical retailers, especially regarding the qualifications of Internet pharmaceuticals retailers, pharmaceuticals sold online and the distribution thereof.

Regulations on Online Music

On 20 November 2006, MOC issued Several Suggestions of the Ministry of Culture on the Development and Administration of Internet Music (“**Suggestions**”) (關於網絡音樂發展和管理的若干意見), which became effective on that date. The Suggestions, among other things, reiterate the requirement for an ICP operator to obtain the Network Culture Operating Permit to carry out any business relating to Internet music products. In addition, foreign investors are prohibited from operating Internet culture businesses. The Suggestions further provide that, any online music that will be circulated within the PRC is required to (i) for foreign music, be approved for importation by MOC and (ii) for domestic music, be filed with MOC. Imported online music is required to be filed for content review by MOC before being circulated online.

On 18 August 2009, MOC promulgated the Notice on Strengthening and Improving the Content Review of Online Music (“**Online Music Notice**”) (關於加強和改進網絡音樂內容審查工作的通知). According to the Online Music Notice, only “Internet culture operating entities” approved by MOC may engage in the production, release, dissemination, including providing direct links to music products, and importation of online music products. The content of online music shall be reviewed by or filed with MOC. Furthermore, Internet culture operating entities are required to establish a strict self-monitoring system of online music content and set up a special department in charge of such monitoring.

Since 2010, MOC has taken great efforts to crack down music websites which carry out an online music operation without approval. It is expected that MOC will release more regulations and tighten its regulatory enforcement on online music operations in the future.

Regulations on Online Audio/Video Broadcasting

On 6 July 2004, SARFT promulgated the Rules for the Administration of Broadcasting of Audio and Video Programs through the Internet and Other Information Networks (“**Audio and Video Broadcasting Rules**”) (互聯網等信息網絡傳播視聽節目管理辦法), which became effective on 11 October 2004. The Audio and Video Broadcasting Rules apply to the launch, broadcasting, aggregation, transmission or download of audio or video programs via the Internet and other information networks. Anyone who wishes to engage in Internet broadcasting activities must first obtain an Information Network Audio and Video Program Dissemination Licence, with a term of two years, issued by SARFT and operate pursuant to the scope as provided in such licence.

On 13 April 2005, the State Council announced Several Decisions on Investment by Non-state-owned Companies in Culture-related Business in China (國務院關於非公有資本進入文化產業的若干決定). These decisions encourage and support non-state-owned companies to enter certain culture-related business in the PRC, subject to restrictions and prohibitions for investment in audio or video broadcasting, website news and certain other businesses by non-state-owned companies. These decisions authorise SARFT, MOC and GAPP to adopt detailed implementation rules according to these decisions.

On 20 December 2007, SARFT and MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services (“**Circular 56**”) (互聯網視聽節目服務管理規定). Circular 56 reiterates the requirement set forth in the Audio and Video Broadcasting Rules that Internet (including mobile network) audio and video service providers must obtain the Information Network Audio and Video Program Dissemination Licence from SARFT. Furthermore, Circular 56 requires all Internet audio or video service providers to be either wholly state-owned or state-controlled. According to

relevant official answers to press questions published on SARFT's website dated 3 February 2008, officials from SARFT and MIIT clarified that Internet audio or video service providers (foreign-invested websites not included) that have been operating lawfully prior to the issuance of Circular 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to Internet audio or video service providers established after Circular 56 was issued. Such policies have been reflected in the application procedures for Audio and Video Program Dissemination Licence.

On 28 December 2007, SARFT issued the Notice on Strengthening the Administration of TV Dramas and Films Transmitted via the Internet ("**Notice on Dramas and Films**") (關於加強互聯網傳播影視劇管理的通知). According to the Notice on Dramas and Films, before an ICP operator makes film and drama programs available online, it must obtain the Permit for Issuance of TV Dramas, the Permit for Public Projection of Films, the Permit for Issuance of Cartoons and/or the Permit for Public Projection of Academic Literature Movies and TV Plays accordingly. In addition, the ICP operator must obtain authorisation from the copyright owners of the film and drama programs regarding the online dissemination.

On 31 March 2009, SARFT issued the Notice on Strengthening the Administration on Content of Internet Audio-Visual Programs (關於加強互聯網視聽節目內容管理的通知), which requires that Internet audio and video service providers must edit or delete programs that contain illegal content and improve their program content administration systems. Internet audio and video service providers should obtain relevant permits such as film screening licences, television drama distribution licences or television animation distribution licences etc. for the TV dramas and films they provide.

On 15 September 2009, SARFT issued the Notice on Issues Concerning the Administration of Internet Audio-Video Program Service Permits (關於互聯網視聽節目服務許可證管理有關問題的通知). According to this notice, any website or individual that has not obtained an Information Network Audio and Video Program Dissemination Licence may not provide audio-video program services via the Internet. The administrative departments in charge of radio, film and television at all levels shall order the websites and individuals that provide Internet-based audio-video program services without having obtained the Information Network Audio and Video Program Dissemination Licences to immediately cease such unauthorised services.

On 17 March 2010, SARFT issued the Internet Audio and Video Program Services Categories (Provisional) ("**Categories**") (互聯網視聽節目服務業務分類目錄(試行)), which classify Internet audio and video programs into four categories.

On 6 April 2011, the GAPP and General Administration of Customs jointly issued the "Administrative Measures for Importing Audio and Video Products" (音像製品進口管理辦法) and repealed the old Administrative Measures for Importing Audio and Video Products which had been effective since 1 June 2002. According to these Measures, the government implements a licensing system to the import of Audio and video products, and the importer of audio and video products shall report to the GAPP for content examination before import and may import audio and video products only after obtaining a licence upon approval.

Regulations on Production and Operation of Radio and TV Programs

On 19 July 2004, SARFT promulgated the Administrative Measures on the Production and Operation of Radio and Television Programs ("**Radio and TV Programs Measures**") (廣播電視節目製作經營管理規定), which became effective on 20 August 2004. These measures provide that anyone who wishes to produce or operate radio or television programs must first obtain the Permit for Production and Operation of Radio and TV Programs from SARFT or its local branches. Applicants for this permit must meet several criteria, including having a minimum registered capital of RMB3 million. Entities with the Permit for Production and Operation of Radio and TV Programs must conduct their business

operations in strict compliance with the approved scope of production and operation provided under the permit. Furthermore, entities other than radio and TV stations are strictly prohibited from producing radio and TV programs covering contemporary political news or similar subjects and topics.

On 9 July 2012, SARFT and SIIO jointly issued the Notice on Further Strengthening the Administration of Internet Dramas, Micro-Films, and Other Internet Audio/Video Programs (關於進一步加強網絡劇、微電影等網絡視聽節目管理的通知). Pursuant to this notice, Internet companies offering audio/video programming services must review the contents of Internet dramas, micro-films and other Internet audio/video programs before broadcasting in accordance with the principle of “you provide Internet services, you take responsibility for it.” The notice also requires Internet audio/video programming industry associations to perform industry self-regulation functions and government departments shall regulate market access and withdraw Internet audio/video programming service providers in accordance with the relevant laws and regulations.

Regulations on Online Trading

Currently, unless otherwise mentioned herein, there is no PRC law or regulation at the national level that requires a special licence, qualification or permit be obtained in order to provide an online trading platform service.

On 6 March 2007, MOFCOM promulgated the Guiding Opinions of the Ministry of Commerce on Online Trading (Interim) (“**Online Trading Opinions**”) (商務部關於網上交易的指導意見(暫行)). Under the Online Trading Opinions, an online trading platform operator, as one type of the online trading service operator, shall (i) be qualified as a legal entity; (ii) standardise its service and set up a user registration system, trading rules, information disclosure and examination system and other necessary systems; (iii) provide proper information disclosure to the users; (iv) maintain transaction in order; (v) protect users’ interest and costumers’ benefit; (vi) store trading information and ensure data security; (vii) monitor the information on its online trading platform; and (viii) maintain online platform system security.

On 2 April 2009, MOFCOM promulgated the Norms for eCommerce Model (“**eCommerce Norms**”) (電子商務模式規範), which became effective on 1 December 2009. Under the eCommerce Norms, eCommerce operators shall guarantee that their commodities or services meet the requirements for the safety of person or property. eCommerce operators shall not offer defective commodities or services or conduct false promotion and shall not default or conduct any infringing acts. Where a dispute arises between a consumer, buyer or individual and an eCommerce operator, the operator shall bear the burden of proof for the legitimacy of its operation, while the consumer, buyer or individual shall prove the existence of any alleged damage.

On 2 April 2009, MOFCOM promulgated the Norms for Online Transaction Services (“**Online Transaction Norms**”) (網絡交易服務規範), which became effective on 1 December 2009. Under the Online Transaction Standards, products or services that require qualification and have not been examined or approved by competent authorities cannot be provided and traded in online transactions. The Online Transaction Norms require that online transaction platform providers and online payment platform providers shall provide an online dispute handling mechanism and complaint channel; online transaction platform providers and online payment platform providers shall positively assist the investigation and dispute resolution when there is a dispute.

On 19 August 2010, MOFCOM promulgated the Notice of Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales (“**Internet Trading Notice**”) (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知). Under the Internet Trading Notice, a foreign-invested enterprise, which provides online trading services using its own online platform, shall apply to MIIT for a value-added telecommunications business operation licence; and a foreign-invested enterprise, which directly engages in commodity sales through its own online platform, shall register with the telecommunications administration authority.

On 5 January 2011, MOFCOM issued the “Notice of the Ministry of Commerce on Regulating Sales Promotion Acts of Online Shopping” (商務部關於規範網絡購物促銷行為的通知). The Notice requires online shopping companies: (i) to conduct sales promotion according to law; (ii) to ensure the quality of promotional commodities; (iii) to protect the legitimate rights and interests of consumers; (iv) to severely investigate and punish false promotion publicity; (v) to strengthen intellectual property rights protection; (vi) to advocate scientific and rational consumption; and (vii) to establish a long-term mechanism of online shopping and consumption promotion.

On 12 April 2011, MOFCOM promulgated the Service Norms for Third-Party Electronic Commerce Trading Platform (“**Service Norms**”) (第三方電子商務交易平臺服務規範). The Service Norms recommend that platform operators supervise online merchandisers in the following aspects: member registration, contract standardisation, information management, order maintenance, error trading handling, intellectual property protection and prohibited acts. The Service Norms propose that the platform requires online merchandisers to establish and carry out the reputation system with respect to various commercial commodities by contracts or other methods. It should be noted that all technical contents of the Service Norms are recommended approaches.

On 15 April 2013, the Notice on Further Promoting the Healthy and Rapid Development of ECommerce (關於進一步促進電子商務健康快速發展有關工作的通知) was jointly promulgated by 13 governmental authorities (i.e. NDRC, the Ministry of Finance, the Ministry of Agriculture, MOFCOM, PBOC, the General Administration of Customs, the State Administration of Taxation, SAIC, the General Administration of Quality Supervision, Inspection and Quarantine, the Forestry Administration, the National Tourism Administration, the State Post Bureau and the Standardisation Administration), which provides a comprehensive and supportive framework for facilitating and improving the development of ECommerce.

On 21 August 2013, the General Office of the State Council promulgated the Notice on Supportive Policies Regarding Cross-Border ECommerce Retail and Export (國務院辦公廳關於實施支援跨境電子商務零售出口有關政策意見的通知), which provides some supportive policies to facilitate the development of the cross-border eCommerce industry. On 30 December 2013, the Ministry of Finance and the State Administration of Taxation jointly promulgated the Notice of the Ministry of Finance and the State Administration of Taxation on the Taxation Policies Applicable to Cross-border ECommerce Retail Export (財政部、國家稅務總局關於跨境電子商務零售出口稅收政策的通知), which provides certain tax relief for eCommerce exporters.

On 31 October 2013, MOC promulgated the Implementation Opinions to Facilitate the Application of ECommerce (商務部關於促進電子商務應用的實施意見) which reflects support on the part of the PRC authorities for the development and application of eCommerce.

On 26 January 2014, SAIC promulgated the Administrative Measures for the Online Trading (“**Online Trading Measures**”) (網絡交易管理辦法), which will become effective on 15 March 2014, to replace the Interim Measures for the Trading of Commodities and Services through the Internet (網絡商品交易及有關服務行為管理暫行辦法) dated 1 July 2010. Under the Online Trading Measures, each online trading platform operator is obligated to, among others, (i) examine, verify and record the real identification of merchandisers using the platform; (ii) enter into an agreement with each merchandiser using the platform; (iii) set up platform rules and regulations; (iv) inspect and supervise the trading information and activities on the platform; (v) take measures to protect trademark, enterprise name use right and other proprietary rights, (vi) examine, record and preserve the products and service information as published in such platform; and (vii) comply with other requirements and co-operate with SAIC or its local branch for monitoring illegal online trading activities and protecting consumers’ rights. Furthermore, operators of the third-party trading platforms are required to distinguish the in-house commodities and services from those operated by other operators on the platform by marks in an obvious way to avoid misleading to the consumers. The Online Trading Measures also encourage operators of third-party trading platforms to set earnest money in favor of consumers’ rights and interests.

Regulations on Online Payment Services

On 14 June 2010, PBOC promulgated the Administration Measures on Non-financial Institutions Payment Services (“**Payment Measures**”) (非金融機構支付服務管理辦法), which became effective on 1 September 2010. On 1 December 2010, PBOC promulgated the Implementing Rules for the Administration Measures on Non-financial Institutions Payment Services (非金融機構支付服務管理辦法實施細則). Pursuant to the Payment Measures and their implementing rules, non-financial institutions which intend to engage in online payment services, shall satisfy various requirements in connection with registered capital, number of qualified professionals, anti-money laundering measures, corporate structure, internal control and risk management, and shall maintain full compliance records for the last three years. The Payment Measures require all non-financial institutions engaged in online payment services to obtain a Payment Service Licence from PBOC within a one-year grace period commencing from 1 September 2010. Failure to obtain the Payment Service Licence will lead to the termination of the right to provide online payment services.

On 16 June 2011, the PBOC promulgated the Provisions on the Administration of Testing and Certification of the Payment Service Business Systems of Non-financial Institutions (非金融機構支付服務業務系統檢測認證管理規定), which require that non-financial institutions shall have their business systems tested and certified within six months before applying for the payment service permits. Non-financial institutions must have their business systems tested and certified in a comprehensive manner at least once every three years according to their needs for payment business development and safety management.

On 7 June 2013, PBOC promulgated the Measures on the Deposit and Management of Customer Excess Reserves by Payment Institutions (支付機構客戶備付金存管辦法) to strengthen the regulation over deposit and application of customer excess reserves and to enhance account security and customer rights. According to these measures, the advance payment received by the payment institutions from the customers for deposits shall constitute “customer excess reserves” and shall be fully deposited into a special account opened with a qualified domestic banking financial institution, which has entered into an agreement with the payment institution for such deposit purpose. These measures further require that payment institutions shall quarterly count and draw provisions of risk out of the interests incurred on the customer excess reserves to make up the damages thereof.

On 1 February 2013, SAFE promulgated the Guidance on the Pilot Services of Cross-Border ECommerce Foreign Exchange Payment by Payment Institutions (支付機構跨境電子商務外匯支付業務試點指導意見) and the Notice of the State Administration of Foreign Exchange on the Pilot Services of Cross-Border ECommerce Foreign Exchange Payment by Payment Institutions (關於開展支付機構跨境電子商務外匯支付業務試點的通知), which allow some payment institutions, upon receipt of appropriate approvals, to carry out pilot online services of small foreign exchange settlement and cross-border foreign exchange payment for ECommerce customers.

In March 2013, PBOC published the draft bills of the Guidance of PBOC on the Development of Mobile Payment Services (中國人民銀行關於手機支付業務發展的指導意見) and the Administration Measures on the Online Payment Services by Payment Institutions (支付機構網路支付業務管理辦法) for public comment, which reflect a legislative aim of the PRC governmental authorities to strengthen regulations over online and mobile payment services to ensure secure payments.

Regulations on Online Search Services

Pursuant to the currently effective Catalogue of Telecommunications Business, “value-added telecommunication services” cover, among other things, “the information service”, which is defined as “to provide, by means of information collection, development, processing and building of the information platform, online information and data search services through the public communication

network (such as fixed network, mobile network and Internet) to the general public.” Therefore, online search service falls within the scope of value-added telecommunication services. An enterprise that intends to carry out the business of online search service is required to hold a valid ICP Licence, setting out that the ICP operator is permitted by the MIIT to provide Internet information services.

An online search service provides links to other websites in response to search queries. The operators of such linked websites shall be responsible for maintaining appropriate approvals, licences, permits and registrations in connection with the contents on the linked websites.

Regulations on Email Services

On 20 February 2006, the MIIT promulgated the Administrative Measures on Electronic Mail Services on the Internet (“**Email Service Measures**”) (互聯網電子郵件服務管理辦法), which became effective on 30 March, 2006. Pursuant to the Email Service Measures, an Internet email service provider shall obtain a licence for the operation of value-added telecommunications services or go through the formalities for record-filing for non-profit Internet information services. An Internet email service provider shall, 20 days prior to the commencement of use of the email servers, register the IP address of the Internet email server with the MIIT or its local branches.

Regulations on Online Sales of Lottery Tickets

On 26 September 2010, the Ministry of Finance issued the Interim Measures for the Administration of Sales of Lottery Tickets via the Internet (“**Lottery Tickets Measures**”) (互聯網銷售彩票管理暫行辦法), pursuant to which a lottery issuing organisation may collabourate with an entity or authorise a lottery sales organisation to carry out the business of selling lottery tickets via the Internet or authorise an entity to carry out the business of lottery sales agency via the Internet. Cooperating entities and Internet sales agents shall meet several qualifications and shall sign a co-operation agreement or sales agency contract with the lottery issuing organisation.

REGULATIONS ON MVAS

Regulations on Short Messaging Services and Other Mobile-based Wireless Services

Pursuant to the currently effective Catalogue of Telecommunications Business, messaging service, search engine, mobile-based music or games and download of mobile software fall under the scope of information service, and therefore an Operating Permit (Mobile Network) Value-added Telecommunications Business (“**SP Licence**”) is required for engaging in such business operations.

On 15 April 2004, MIIT issued the SMS Notice, specifying that only those information service providers holding the SP Licence can provide short messaging services in the PRC. The SMS Notice provides that service providers are required to expressly advise users of the charge standards, collection methods and subscription and cancellation procedures. In addition, operators shall provide SMS strictly in accordance with users’ requirements. The SMS Notice also specifies that operators shall examine the contents of short messages and automatically record and store for five months the time of sending and receiving the short messages, the mobile numbers or codes of the sending and receiving terminals.

Regulations on Telecommunications Networks Code Number Resources

A value-added telecommunications service provider must apply to MIIT authorities to obtain a telecommunications network code number. On 29 January 2003, MIIT issued the Administrative Measures on Telecommunications Networks Code Number Resources (“**Code Number Measures**”) (電信網碼號資源管理辦法) to regulate network code numbers, including those of mobile communications networks. According to the Code Number Measures, service providers who provide

services across provinces shall apply to MIIT, and entities which apply for network code numbers to be used within a provincial-level administrative region shall apply to the relevant provincial branch of MIIT. The Code Number Measures also specify the qualification requirements, application materials and application procedures to obtain network code numbers.

In June 2006, MIIT issued the Administrative Measures on Application, Distribution, Usage and Withdrawal of SMS Services Access Codes (“**SMS Code Measures**”) (短消息類服務接入代碼申請、分配、使用和收回管理辦法). According to the SMS Code Measures, the administration and usage of services relating to SMS codes shall comply with the Code Number Measures. The SMS Code Measures also specify that operators who provide services relating to SMS codes across provinces shall apply with the relevant provincial branch of MIIT. The SMS code for a commercial SMS provider is valid for the term specified in the SP Licence, while the SMS code for the noncommercial SMS provider is valid for five years.

REGULATIONS ON ONLINE ADVERTISEMENTS

The principal regulations governing advertising businesses in the PRC include but not limited to: (i) the Advertising Law of the PRC (廣告法) promulgated by the Standing Committee of the National People’s Congress on 27 October 1994 and effective on 1 February 1995, (ii) the Advertising Administrative Regulations (廣告管理條例), promulgated by the State Council on 26 October 1987 and effective on 1 December 1987, and (iii) the Implementing Rules for the Advertising Administrative Regulations (廣告管理條例施行細則) promulgated by SAIC on 30 November 2004 and effective on 1 January 2005.

The PRC government regulates advertising, including online advertising, principally through SAIC. Prior to 30 November 2004, in order to conduct any advertisement business, an enterprise was required to hold an advertising operation licence in addition to a relevant business licence. On 30 November 2004, SAIC issued the Administrative Rules for Advertising Operation Licences (廣告經營許可證管理辦法), which became effective on 1 January 2005 and granted a general exemption to this requirement for most enterprises, other than radio stations, television stations, newspapers and magazines, public institutions and entities specified in other regulations. Nonetheless, an enterprise that engages in advertising activities must obtain a business licence, which specifically includes operating an advertising business within its business scope from SAIC or its local branch.

On 15 April 2013, the Provisions on the Pre-release Review of Advertisements by Mass Media (大眾傳播媒介廣告發佈審查規定) was jointly promulgated by 12 governmental authorities (i.e. SAIC, Propaganda Department of the Communist Party of China, SCIO, MPS, Ministry of Supervision, State Council Office for Rectifying Business Misconducts, MIIT, Ministry of Health, SAPPFT, SFDA, State Administration of Traditional Chinese Medicine). These provisions require Internet service providers to undertake internal review before the release of any advertisement, among other things.

There is no PRC law or regulation at the national level that specifically regulates online advertising business. However, certain local regulations have imposed licence requirements on the online advertising business. SAIC has also expressed its intent to further tighten its supervision over the online advertising business.

PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC, which include prohibitions of, among other things, misleading content, superlative wording, socially destabilising content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. The dissemination of advertisements of some other products, such as tobacco, patented products, pharmaceuticals, medical instruments, agrochemicals, foodstuff, alcohol and cosmetics are also subject to specific restrictions and requirements.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors must ensure that such review has been duly performed and that the relevant approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, SAIC or its local branches may order the violator to terminate its advertising operation or even revoke its business licence. Furthermore, advertisers, advertising operators or advertising distributors may be subject to criminal liability if their conduct breaches the criminal law or subject to civil liability if their conduct infringes on the legal rights and interests of third parties.

On 22 August 2008, SAIC and MOFCOM issued the Regulations on the Administration of Foreign-Invested Advertising Enterprises (“**Foreign-Invested Advertising Regulations**”) (外商投資廣告企業管理規定) which became effective on 1 October 2008. According to the Foreign-Invested Advertising Regulations, foreign investor(s) should obtain an approval opinion from SAIC or its provincial-level branches before the provincial branches of MOFCOM can approve the establishment of the foreign-invested advertising enterprises. The Foreign-Invested Advertising Regulations also provide for certain requirements for qualifications of the foreign investors.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

The Copyright Law of the PRC (著作權法), adopted in 1991 and revised in 2001 and 2010, together with its implementing rules (著作權法實施條例), promulgated in 2002 and revised in 2011 and 2013, protect copyright and explicitly cover computer software copyrights. On 20 December 2001, the State Council promulgated the new Regulations on Computer Software Protection (計算機軟件保護條例), which became effective from 1 January 2002 and were revised in 2011 and 2013, are intended to protect the rights and interests of computer software copyright holders and encourage the development of the software industry and information economy. The Provisional Measures on Voluntary Registration of Works (作品自願登記試行辦法), promulgated by National Copyright Administration of the PRC on 31 December 1994 and effective on 1 January 1995, further provides for a voluntary registration system to be administered by the National Copyright Administration and its local branches. In the PRC, software developed by PRC citizens, legal person or other organisations is automatically protected by copyright immediately after its development without an application or approval. The Copyright Protection Center of China may provide a certificate of registration to registrants which may serve as preliminary evidence of the ownership of the copyright and other registered matters. On 20 February 2002, the National Copyright Administration of the PRC introduced the Measures on Computer Software Copyright Registration (計算機軟件著作權登記辦法), which outlines the application procedures for software copyright registration, licence contract registration and transfer contract registration.

On 18 May 2006, the State Council promulgated the Regulations on Protection of the Right of Dissemination through Information Networks (“**Protection Regulations**”) (信息網絡傳播權保護條例), which became effective on 1 July 2006 and was amended on 30 January 2013. The Protection Regulations require that any organisation or individual who disseminates a third-party’s work, performance, audio or visual recording products to the public through information networks shall obtain permission from and pay compensation to, the legitimate copyright owner of such products, unless otherwise provided under relevant laws and regulations. The legitimate copyright owner may take technical measures to protect his or her right to disseminate through information networks and any organisation or individual shall not intentionally avoid, destroy or otherwise assist others in avoiding such protective measures unless permissible under law.

In order to address copyright issues relating to the Internet, the PRC Supreme People's Court adopted and revised the Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes over Internet Copyright in 2000, 2003 and 2006 (together, "**Internet Copyright Interpretations**"). The Internet Copyright Interpretations establish joint liability for Internet service providers if they participate in, assist in or abet infringing activities committed by any other person through the Internet, are aware of infringing activities committed by their users through the Internet and fail to remove infringing content or take other action to eliminate infringing consequences after receiving an infringement notice from the legitimate copyright holder. In addition, Internet service providers will be held liable for copyright infringement if they knowingly upload, transmit or provide any methods, equipment or materials which are intended to bypass or disrupt technologies designed to protect copyright holders. Upon request, the Internet service providers shall provide the copyright holder with the registration information of the alleged infringer for legal claims, provided that such copyright holder has produced relevant evidence of identification, copyright ownership and infringement.

In December 2012, the PRC Supreme People's Court promulgated the Provisions of the PRC Supreme People's Court on Several Issues regarding the Application of Laws in Deciding Civil Disputes Involving Infringement of the Right to Communicate via Information Networks (最高人民法院關於審理侵害資訊網絡傳播權民事糾紛案件適用法律若干問題的規定). This judicial interpretation aims to solve disputes in connection with the infringement of the right of communication through the Internet and protect the lawful rights in this respect. This rule places the burden on Internet service providers to remove not only links or contents that have been specifically mentioned in the notices of infringement from right holders, but also links or contents they "should have known" to link to infringing content. The interpretation further provides that where an Internet service provider has directly obtained economic benefits from any contents made available by an Internet user, it has a higher duty of care with respect to Internet users' infringement of third-party copyrights. This interpretation could subject us and other Internet service providers to significant administrative burden and litigation risks.

Patent

The National People's Congress adopted the Patent Law (專利法) in 1984, and amended it in 1992, 2000 and 2008. To further enforce the Patent Law, the State Council promulgated the Implementing Rules of the Patent Law (專利法實施細則) in 2002, as amended in 2010. The purpose of the Patent Law together with its implementing rules is to protect the lawful interests of patent holders, encourage invention, foster applications of invention, enhance innovative capabilities and promote the development of science and technology. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds, substances obtained by means of nuclear transformation or a design which identifies the patterns or colors or a combination of both patterns and colors of graphic print products. The Patent Office, under the State Intellectual Property Office, is responsible for receiving, examining and approving patent applications. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs. A third-party user must obtain consent or a proper licence from the patent owner to use the patent. Otherwise, the use constitutes an infringement of patent rights.

Trademark

The Trademark Law of the PRC (商標法), adopted in 1983 and revised in 1993, 2001 and 2013, together with its implementing rules (商標法實施條例), promulgated in 2002, protects registered trademarks. The Trademark Office under SAIC is responsible for trademark registrations. Upon the registration of a trademark, the applicant will have the right to exclusive use of the trademark for ten years. Registered trademark licence agreements must be recorded with the Trademark Office.

Domain Name

Internet domain name registration and related matters are primarily regulated by the Implementing Rules on Registration of Domain Names (域名註冊實施細則) issued by China Internet Network Information Center (“CNNIC”), which became effective on 5 June 2009, as amended on 28 May 2012, the Measures on Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法), issued by MIIT on 5 November 2004 and effective on 20 December 2004, and the Measures on Domain Name Disputes Resolution (域名爭議解決辦法) issued by CNNIC on 28 June 2012. These regulations provide that domain name registrations will be handled through domain name service agencies and that applicants become domain name holders upon successful domain name registration. In July 2001, the PRC Supreme People’s Court issued the Judicial Interpretation on Certain Issues Concerning the Application of Laws in the Trial of Cases Involving Civil Disputes over Computer Network Domain Names (最高人民法院關於審理涉及電腦網路功能變數名稱民事糾紛案件適用法律若干問題的解釋) to clarify certain issues involved in civil disputes in registration and use of computer network domain names.

OTHER REGULATIONS

Regulations on Information Security

The National People’s Congress has enacted legislation that prohibits use of the Internet that breaches public security, disseminates socially destabilising content or leaks state secrets. A breach of public security is defined as a breach of national security or disclosure of state secrets; infringement on state, social or collective interests or the legal rights and interests of citizens; or illegal or criminal activities. Socially destabilising content includes any content that incites defiance or violation of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

According to other relevant regulations, ICP operators must complete mandatory security filing procedures, regularly update information security and censorship systems for their websites with local public security authorities and report any public dissemination of prohibited content.

On 13 December 2005, the Ministry of Public Security promulgated Provisions on Technological Measures for Internet Security Protection (“**Internet Protection Measures**”) (互聯網安全保護技術措施規定), which became effective on 1 March 2006. The Internet Protection Measures requires all ICP operators to keep user information records, including user registration information, log-in and log-out time, IP address, content and time of posts by users, for at least 60 days and submit the above information as required by laws and regulations. The ICP operators must regularly update information security and censorship systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content. If an ICP operator violates these measures, the PRC government may revoke its ICP Licence and shut down its websites.

On 16 December 1997, MPS promulgated the Measures for Security Protection Administration of the International Networking of Computer Information Networks (計算機信息網絡國際聯網安全保護管理辦法), which requires that the ICP operators must regularly update information security and censorship systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content. If an ICP operator violates these measures, the PRC government may revoke its ICP Licence and shut down its websites. In addition, the State Secrecy Bureau has issued provisions authorising the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets.

The newly amended Law on Preservation of State Secrets (保守國家秘密法), which became effective on 1 October 2010, provides that whenever an ICP operator detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report such

violation to the state security and public security authorities. Upon the request of state security, public security or state secrecy authorities, the ICP operator must delete any contents on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate manner may subject the ICP operator to liability and certain penalties enforced by the State Security Bureau, MPS and MIIT or their respective local branches.

Regulations on Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorised disclosure. The Internet Measures prohibit an ICP operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party. Pursuant to the BBS Measures, ICP operators that provide electronic messaging services must maintain the confidentiality of users' personal information and must not disclose such personal information to any third party without the user consent or unless required by law. The regulations further authorise the relevant government authorities to order ICP operators to rectify unauthorised disclosure. ICP operators are subject to legal liability if the unauthorised disclosure results in damages or losses to the users. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an Internet user posts any prohibited content or engages in illegal activities on the Internet. The Regulations on Network Information Protection require Internet operators to take various measures to ensure the privacy and confidentiality of user information, including supervision and management over those third-party services as engaged by Internet operators.

Regulations on Internet Infringement

The Tort Law of the PRC ("**PRC Tort Law**") (侵權責任法) was promulgated by the Standing Committee of National People's Congress on 26 December 2009 and became effective on 1 July 2010. According to the PRC Tort Law, both Internet users and Internet service provider may be liable for the wrongful acts of users who infringe the legal rights and interests of other parties. Where an Internet user infringes upon the legal rights or interests of another through the use of Internet services, the party whose rights are infringed may request the Internet service provider whose Internet services are facilitating the infringement to take necessary measures including the deletion, blocking or disconnection of an Internet link. If, after being notified, the Internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any further damages suffered by the rights holder. Further, if an Internet service provider is aware that an Internet user is utilising its Internet services to infringe upon the civil rights or interests of others and fails to take necessary measures, it shall be jointly and severally liable with the Internet user for damages resulting from the infringement.

Regulations on Technology and Software Imports

On 10 December 2001, the State Council promulgated the Regulations on Administration of Import and Export of Technologies ("**Import and Export Technologies Regulations**") (技術進出口管理條例), which became effective on 1 January 2002. These regulations and related legislations set out the regime regulating the import and export of technologies. The import and export of technologies is broadly defined as including transfer or licence of patents, software and know-how, and provision of services related to the technologies. Under the regime, technologies are classified as prohibited, restricted or freely-tradable. The technologies in the freely-tradable category may be traded freely without a special approval or licence. The contracts for the export of freely-tradable technologies are required to be filed with the relevant government authority for their records but the filing procedure is not a pre-condition for effectiveness of the contracts.

To implement this requirement, the Administrative Measures for Registration of Technology Import and Export Contracts (技術進出口合同登記管理辦法), the Administrative Measures on Prohibited and Restricted Technology Exports (禁止出口限制出口技術管理辦法), the Administrative Measures on Prohibited and Restricted Technology Imports (禁止進口限制進口技術管理辦法) have been promulgated by MOFCOM or by MOFCOM jointly with other governmental authorities since February 2009.

MOFCOM is the principal approval authority for restricted technologies, as well as the registration authority for permitted technologies, but the Import and Export Technologies Regulations also provide that MOFCOM may delegate its approval and registration authority to its local branches. The operation and sales (distribution) of imported software in the PRC are also governed by the Software Measures.

Regulations Relating To Foreign Exchange and Dividend Distribution

The principal regulations governing foreign currency exchange in the PRC are the Regulations on Administration of Foreign Exchange (“**Foreign Exchange Regulations**”) (外匯管理條例), promulgated by the State Council in 1996 and amended in 1997 and 2008. Under the Foreign Exchange Regulations, RMB is freely convertible for current account items, such as dividends distributions, interest payments, and trade and service-related foreign exchange transactions, on a basis of true and lawful transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside the PRC, unless the prior approval of SAFE is obtained and registration with SAFE is completed.

Pursuant to the Rules on Administration of Settlement, Sale and Payment of Foreign Exchange Provisions (結匯、售匯及付匯管理規定) issued by PBOC on 20 June 1996 and effective on 1 July 1996, foreign-invested enterprises in the PRC may purchase foreign currency, subject to a cap approved by SAFE, to settle current account transactions without the approval from SAFE. Foreign exchange transactions involving capital account items are still subject to limitations and will require approval from or registration with SAFE.

On 29 August 2008, SAFE issued the Notice on Issues Relating to the Improvement of Business Operations with Respect to the Administration over Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (“**Circular 142**”) (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) and on 18 July 2011, SAFE issued the Supplementary Notice on Issues Relating to the Improvement of Business Operations with Respect to the Administration over Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (“**Circular 88**”) (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的補充通知). Circular 142 and Circular 88 require that the registered capital of a foreign-invested enterprise converted into RMB from foreign currencies be utilised only for purposes within its business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC unless specifically permitted in its business scope or under applicable law. In addition, SAFE strengthened its oversight of the flow and use of RMB funds converted from the foreign currency-denominated capital of a foreign-invested company. The purpose for the use of such RMB funds may not be changed without approval from SAFE. In addition, the converted RMB funds may not be used to repay RMB loans if the proceeds of such loans have not yet been used for purposes within the company’s approved business scope. Violations of Circular 142 and Circular 88 may result in severe penalties, including substantial fines imposed by the Foreign Exchange Regulations.

On 9 November 2010, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Strengthening the Administration of the Foreign Exchange Business (“**Circular 59**”) (關於加強外匯業務管理有關問題的通知), which requires that the governmental authority closely examine the authenticity of settlement of proceeds from offshore offerings. In particular, it specifically requires that proceeds from offshore offerings which will be converted into RMB shall be used in the manner as described in the offering documents.

In order to further clarify the current foreign exchange regulations over foreign direct investment, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Promulgation of the Regulations on the Foreign Exchange Administration of Foreign Direct Investments in PRC together with the Supporting Documents thereof (“**Circular 21**”) (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) on 11 May 2013.

On 23 June 2013, SAFE promulgated the Notice of the Adjustment to the Approval Authority on Certain Capital Items for Foreign Exchange Business (關於調整部分資本專案外匯業務審批許可權的通知), which delegates additional approval authority to the local branches of SAFE.

The principal regulations governing distribution of dividends by wholly foreign-owned enterprises include the Company Law, the Law on Wholly Foreign-owned Enterprises of the PRC (外資企業法), adopted in 1986 and amended in 2000, the Implementing Rules of the Wholly Foreign-owned Enterprise Law (外資企業法實施細則), issued in 1990 and amended in 2001, and the PRC Enterprise Income Tax Law adopted in 2007 and its implementation rules in 2007. Under these laws and regulations, wholly foreign invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. Wholly foreign-owned enterprises in the PRC are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of the relevant fund reaches 50% of its registered capital.

Regulations on Offshore Investment by PRC Residents

Pursuant to the Notice of the Administration of Foreign Exchange Involved in Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (“**Circular 75**”) (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by SAFE on 21 October 2005: (i) a PRC citizen residing in the PRC or non-PRC citizen primarily residing in the PRC due to his or her economic ties to the PRC, who is referred to as a PRC resident in Circular 75, shall register with the local branch of SAFE before it establishes or controls an overseas special purpose company, for the purpose of overseas equity financing; (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas special purpose company, or engages in overseas financing after contributing assets or equity interests into a special purpose company, such PRC resident shall register his or her interest in the special purpose company and the change thereof with the local branch of SAFE; and (iii) when the special purpose company undergoes a material event outside of the PRC not involving inbound investments, such as change in share capital, creation of any security interests on its assets or merger or division, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. PRC residents who are shareholders of special purpose companies established before 1 November 2005 were required to register with the local branch of SAFE before 31 March 2006.

Under Circular 75, failure to comply with the registration procedures above may result in penalties, including imposition of restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to the overseas special purpose company.

To further clarify the implementation of the Circular 75, SAFE issued Circular 106 (“**Circular 106**”) on 29 May 2007. Under Circular 106, PRC subsidiaries of an offshore special purpose company are required to coordinate and supervise the filing of foreign exchange registrations by the offshore holding company’s shareholders who are PRC residents in a timely manner. If these shareholders fail to comply, the PRC subsidiaries are required to report to the local branch of SAFE. If the PRC subsidiaries of the offshore parent company do not report to the local branch of SAFE, they may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company and the offshore parent company may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the above foreign exchange registration requirements could result in liabilities for such PRC subsidiaries under PRC laws for evasion of foreign exchange restrictions, including (i) requirements by SAFE to return the foreign exchange remitted overseas within a period specified by SAFE, with a fine of up

to 30% of the total amount of foreign exchange remitted overseas and deemed evasive and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at such PRC subsidiaries who are held directly liable for the violations may be subject to administrative sanctions or, possibly, criminal liabilities.

On 20 May 2011, SAFE issued Operating Instructions on Foreign Exchange Administration for Domestic Residents Engaging in Financing and Round-trip Investment via Overseas Special Purpose Vehicles (“**Circular 19**”) (境內居民通過境外特殊目的公司融資及返程投資外匯管理操作規程), which was abolished and replaced by Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents (“**Circular 21**”) (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知). Circular 21 was promulgated by SAFE on 15 May 2013, which aims to further clarify the regulations over foreign direct investment and provide the relevant operational guidelines.

As these SAFE regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended or implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategy. See “*Risk Factors—Risks Relating to the PRC—PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.*”

Regulations on Employee Stock Options Plans

On 25 December 2006, the PBOC promulgated the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法), which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. On 5 January 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法實施細則), which, among other things, specifies approval requirements for a PRC citizen’s participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company.

On 15 February 2012, SAFE promulgated the Notice on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas-Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知), which supersedes a previous notice issued by SAFE in March 2007 and requires domestic employees who participate in stock incentive plan including employee stock holding plan, share option plan or similar plans in an overseas-listed company to register with the relevant local SAFE branch through a PRC agent and complete certain other procedures. A PRC agent shall be a domestic company participating in the stock incentive plan or a domestic institution that is qualified to engage in assets custodian business and has been duly designated by such domestic company.

Regulations on Foreign Investor’s Merger and Acquisition of PRC Enterprises

In August 2006, six PRC regulatory agencies jointly adopted Interim Provisions on the Takeover of Domestic Enterprises by Foreign Investors Rules (the “**M&A Rules**”) (關於外國投資者並購境內企業的規定) which became effective on 8 September, 2006 and were amended by MOFCOM on 22 June 2009. The M&A Rules provided for the filing and approval procedure on the merger and acquisition of domestic enterprises by foreign investors.

According to the Anti-Monopoly Law (反壟斷法) which took effect as of 1 August 2008, where the concentration of business operators reaches the filing thresholds stipulated by the State Council, the business operators shall file a declaration with the anti-monopoly enforcement agency under the State Council, and no concentration shall be implemented until the anti-monopoly enforcement agency clears the anti-monopoly filing.

The Provisions of the State Council on Standards for Prior Declaration of Concentrations of Business Operators (國務院關於經營者集中申報標準的規定), which became effective as of 3 August 2008, stipulated declaration thresholds provided in the Anti-Monopoly Law.

In November 2009, MOFCOM promulgated the Measures for Prior Declaration of Concentration of Business Operators (經營者集中申報辦法) and the Measures for Examination and Approval of Concentration of Business Operators (經營者集中審查辦法), which provide for detailed provisions regarding the filing of prior declaration and examination and approval process by the MOFCOM with respect to anti-monopoly review.

On 3 February 2011, the General Office of the State Council promulgated the Notice on Establishment of the Security Review System for the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“**Security Review Notice**”) (國務院辦公廳關於建立外國投資者併購境內企業安全審查制的通知), which became effective on 3 March 2011. The Security Review Notice officially established the security review system for mergers and acquisitions of domestic enterprises by foreign investors, which is to be implemented by an inter-ministerial panel under the leadership of the State Council.

On 25 August 2011, MOFCOM issued the Provisions of the Ministry of Commerce on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“**Security Review Provisions**”) (商務部實施外國投資者併購境內企業安全審查制度的規定), which became effective on 1 September 2011. Pursuant to the Security Review Provisions, if a foreign investor’s merger or acquisition of a domestic enterprise falls within the scope of security review specified in the Security Review Notice, the foreign investor shall file an application with MOFCOM for security review. Whether a foreign investor’s merger or acquisition of a domestic enterprise falls within the scope of security review or not shall be determined based on the substance and actual influence of the merger or acquisition transaction. No foreign investor is allowed to substantially avoid the security review in any way, including but not limited to, holding shares on behalf of others, trust arrangements, multi-level reinvestment, leasing, loans, contractual control, or overseas transactions.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

Substantial Shareholders' Interests

As of 31 December 2013, the following persons, other than the Directors or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long/short position in the shares in the Company

Name of shareholder	Long/short position	Nature of interest/Capacity	Number of shares/ underlying shares held	Percentage of issued share capital
MIH TC Holdings Limited.....	Long	Corporate ⁽¹⁾	630,240,380	33.85%
Advance Data Services Limited	Long	Corporate ⁽²⁾	189,892,880	10.20%
JPMorgan Chase & Co.....	Long	Beneficial owner	10,614,241	
		Investment manager	17,273,400	
		Trustee (other than a bare trustee)	6,630	
		Custodian corporation / approved lending agent	<u>65,643,029</u>	
		Total ⁽³⁾⁽ⁱ⁾	93,537,300	5.02%
	Short	Beneficial owner ⁽³⁾⁽ⁱⁱ⁾	3,708,714	0.19%

Notes:

- (1) MIH TC Holdings Limited is controlled by Naspers Limited through its wholly owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings (Proprietary) Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings (Proprietary) Limited are deemed to be interested in the same block of 630,240,380 shares under Part XV of the SFO.
- (2) As Advance Data Services Limited is wholly owned by Ma Huateng, Mr. Ma has interest in these shares as disclosed under the section of "Directors' Interests".
- (3) (i) Such long position includes derivative interests in 4,758,558 underlying shares of the Company of which 1,164,452 underlying shares are derived from listed and physically settled derivatives, 2,460,800 underlying shares are derived from listed and cash settled derivatives, 312,691 underlying shares are derived from unlisted and physically settled derivatives and 820,615 underlying shares are derived from unlisted and cash settled derivatives. It also includes 65,643,029 shares in lending pool.
- (ii) Such short position includes derivative interests in 3,695,614 underlying shares of the Company of which 1,073,376 underlying shares are derived from listed and physically settled derivatives, 1,070,300 underlying shares are derived from listed and cash settled derivatives, 98,623 underlying shares are derived from unlisted and physically settled derivatives and 1,453,315 underlying shares are derived from unlisted and cash settled derivatives.

Directors' Interests

As of 31 December 2013, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, Appendix 10 to the Listing Rules, were as follows:

(A) Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital
Ma Huateng	Corporate ⁽¹⁾	189,892,880	10.20%
Zhang Zhidong.....	Corporate ⁽²⁾	65,000,000	3.49%
Lau Chi Ping Martin.....	Personal	8,953,600 ⁽³⁾	0.48%
Iain Ferguson Bruce.....	Personal	82,000 ⁽⁴⁾	0.004%
Ian Charles Stone.....	Personal	75,000 ⁽⁵⁾	0.004%

Notes:

- (1) These shares are held by Advance Data Services Limited, a BVI company wholly owned by Ma Huateng.
- (2) These shares are held by Best Update International Limited, a BVI company wholly owned by Zhang Zhidong.
- (3) The interest comprises 5,953,600 shares and 3,000,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III.
- (4) The interest comprises 70,000 shares and 12,000 underlying shares in respect of the awarded shares granted pursuant to the Share Award Schemes.
- (5) The interest comprises 66,000 shares and 9,000 underlying shares in respect of the awarded shares granted pursuant to the Share Award Schemes.

(B) Long positions in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Tencent Computer	Personal	RMB16,285,710 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong.....	Tencent Computer	Personal	RMB6,857,130 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2013.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the principal terms of the instruments governing our material indebtedness does not purport to be a complete description of all of the terms of these instruments and may not contain all of the information that may be important to prospective investors. Investors should read the consolidated financial statements contained and incorporated by reference elsewhere in this Offering Circular for additional information about our indebtedness.

As of 31 December 2013, our borrowings included in current liabilities, borrowings and long-term notes payable included in non-current liabilities were RMB2,589 million (US\$428 million), RMB3,323 million (US\$549 million) and RMB9,141 million (US\$1,510 million), respectively. Our total borrowings included in current liabilities comprise onshore borrowings that are accounted for as RMB borrowings, as well as offshore U.S. dollar borrowings. Borrowings included in non-current liabilities are accounted for as offshore U.S. dollar borrowings and long-term notes payable is accounted for the 2015 Notes, 2016 Notes and 2018 Notes.

RMB Borrowings

Our total RMB borrowings as of 31 December 2013 were RMB150 million (US\$25 million).

U.S. Dollar Borrowings

The aggregate principal amount of short-term U.S. dollar bank borrowings as of 31 December 2013 was US\$350 million. Applicable interest rates are at LIBOR plus 1.20% to 1.25% per annum. The aggregate principal amount of long-term U.S. dollar bank borrowings as of 31 December 2013 was US\$595 million. Applicable interest rates are at LIBOR plus 1.05% to 1.97% per annum. All such borrowings were unsecured.

These bank borrowings were entered into by one of our offshore subsidiaries, under which it has agreed to certain customary covenants relating to, among other things, securities over its assets, disposals of its assets, and mergers and acquisitions. These bank borrowings contain certain customary events of default, including breaches of terms of the facilities agreement, any events or circumstances that result in a materially adverse change in the business or financial condition of the borrower, borrower's dissolution and insolvency, misleading statements or material omissions, cessation of all or a material part of the borrower's business, change in ownership of the borrower and cross defaults under other loans. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of all or part of the loans and any accrued interest upon the occurrence of an event of default.

These bank borrowings are generally guaranteed by the Company.

2015 Notes

We issued the 1.860% Senior Notes in an aggregate principal amount of US\$300 million (the "**2015 Notes**") for general corporate purposes pursuant to the terms of an agency agreement between the Company and Deutsche Bank AG, Hong Kong Branch as fiscal and paying agent dated 10 September 2013 and a deed of covenant dated 10 September 2013. The 2015 Notes were issued at 99.766% of the aggregate principal amount. Interest on the 2015 Notes will be payable semi-annually in arrears on 10 March and 10 September of each year. The 2015 Senior Notes will mature on 10 September 2015.

2016 Notes

We issued the 4.625% Senior Notes in an aggregate principal amount of US\$600 million (the "**2016 Notes**") for general corporate purposes pursuant to the terms of an indenture dated 12 December 2011,

between the Company and Deutsche Bank Trust Company Americas as trustee. The 2016 Notes were issued at 99.740% of the aggregate principal amount. Interest on the 2016 Notes will be payable semi-annually in arrears on 12 June and 12 December of each year. The 2016 Senior Notes will mature on 12 December 2016.

The indenture governing the 2016 Notes includes customary covenants that, among other things, limit our ability to incur liens and consolidate, merge or sell all or substantially all of our assets. These covenants are subject to certain exceptions and qualifications as described in such indenture. Such indenture contains customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to pay or acceleration of certain other indebtedness, certain events of bankruptcy and insolvency and failure to pay certain judgements. Generally, an event of default under such indenture will allow either the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 2016 Notes to accelerate the amounts due under the 2016 Notes.

2018 Notes

We issued the 3.375% Senior Notes in an aggregate principal amount of US\$600 million (the “**2018 Notes**”) for general corporate purposes pursuant to the terms of an indenture dated 5 September 2012, between the Company and Deutsche Bank Trust Company Americas as trustee. The 2018 Notes were issued at 99.771% of the aggregate principal amount. Interest on the 2018 Notes will be payable semi-annually in arrears on 5 March and 5 September of each year. The 2018 Notes will mature on 5 March 2018.

The indenture governing the 2018 Notes includes customary covenants that, among other things, limit our ability to incur liens and consolidate, merge or sell all or substantially all of our assets. These covenants are subject to certain exceptions and qualifications as described in such indenture. Such indenture contains customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to pay or acceleration of certain other indebtedness, certain events of bankruptcy and insolvency and failure to pay certain judgements. Generally, an event of default under such indenture will allow either the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 2018 Notes to accelerate the amounts due under the 2018 Notes.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our Directors, executive officers and substantial shareholders and, in each case, the companies with whom they are affiliated.

The Company and its subsidiaries from time to time engage in transactions with affiliates of the Company in the ordinary course of their business. It is the Company's policy to conduct these transactions on normal commercial terms and on an arm's-length basis.

Acquisition of 49.0% of the issued share capital in Level Up! International Holdings Pte Ltd. ("Level Up") and Option Letter Agreement with MIH LatAm Holdings B.V.

On 19 January 2012, Aceville Pte. Ltd., a wholly owned subsidiary of the Company, entered into a sale and purchase agreement and option letter agreement with MIH LatAm Holdings B.V. ("**MIH LatAm Holdings**"). MIH LatAm Holdings is a wholly owned subsidiary of Myriad International Holdings B.V., which is a wholly owned subsidiary of Naspers Limited.

Pursuant to the sale and purchase agreement, Aceville Pte. Ltd. purchased 320,722 shares of Level Up representing 49.0% of its issued share capital on the date of the sale and purchase agreement for a cash consideration of US\$27.0 million. Pursuant to the option letter agreement, MIH LatAm Holdings granted Aceville Pte. Ltd. an option to acquire such number of shares that, together with the shares acquired pursuant to the sale and purchase agreement, will represent 67.0% of the issued share capital of Level Up at the date of the exercise of the option. Aceville Pte. Ltd. may exercise the option any time during a two-year period after the closing of the sale and purchase agreement by giving a written notice to MIH LatAm Holdings. The purchase price shall be an amount equal to the sum of (i) US\$9.9 million and (ii) an amount equal to the interest that would accrue on US\$9.9 million over the period from the closing date of the sale and purchase agreement to the date of the exercise of the option at a simple interest rate per annum equal to the three-month LIBOR applicable on the closing date of the sale and purchase agreement plus 1.0%, on the basis of a 365-day year and the actual number of days elapsed. The acquisition of 320,722 shares of Level Up was completed in July 2012.

On 10 October 2013, pursuant to the option letter agreement, Aceville Pte. Ltd. exercised the option to acquire from MIH LatAm an additional 18.0% shares of Level Up in accordance with the terms of the option letter agreement. The total consideration for such shares is US\$10.1 million.

Restructuring the business in India and Thailand

On 10 October 2013, the Company, through its subsidiaries entered into a series of agreements with Naspers Limited and its subsidiaries to restructure their business in India. Upon completion, the Company, through its subsidiaries and Naspers Limited and its subsidiaries will, respectively, own (a) 80.1% and 19.9 % interest in the business of social networking, mobile networking and online gaming through Tencent Social Pte. Ltd., which in turn holds 99.999995% interest in 10c India Internet Private Limited (the remaining 0.000005% is held by TCH Purple Limited, a wholly owned subsidiary of the Company), and (b) 19.9% and 80.1% interest in the business of online shopping, online travel and other Internet commerce business through MIH India eCommerce Pte Ltd.

On 10 October 2013, the Company, through its subsidiaries or associates, entered into a series of agreements with Naspers Limited and its subsidiaries to restructure their business in Thailand. Upon completion, the Company will hold 99.92% of the ordinary shares in the business of social networking, mobile networking and online gaming but will not hold any interest in the business of online shopping, online travel and other Internet commerce business, whereas the MIH Group will hold the business of online shopping, online travel and other Internet commerce business but not any interest in the business of social networking, mobile networking and online gaming.

Share Option Schemes and Share Award Scheme Share

Option Schemes

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

On 16 May 2007, the Company adopted the Post-IPO Option Scheme II. Pursuant to the Post-IPO Option Scheme II, the Board may, at its discretion, grant options to any eligible person to subscribe for shares in the Company. The Post-IPO Option Scheme II shall be valid and effective for a period of ten years commencing on its date of adoption. The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall not exceed 88,903,654 shares, 5% of the issued shares as of the date of shareholders' approval of the Post-IPO Option Scheme II. Options granted under the Post-IPO Option Scheme II will expire no later than the last day of the seven-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme II).

On 13 May 2009, the Company adopted the Post-IPO Option Scheme III. Pursuant to the Post-IPO Option Scheme III, the Board may, at its discretion, grant options to any eligible person (any senior executive or senior officer, director of any member of the Group or any invested entity and any consultant, advisor or agent of any member of the Board) to subscribe for shares in the Company. The Post-IPO Option Scheme III shall be valid and effective for a period of ten years commencing on its date of adoption. The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall not exceed 36,018,666 shares, 2% of the issued shares as of the date of shareholders' approval of this scheme. Options granted under the Post-IPO Option Scheme III will expire after the last day of the ten-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme III).

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time.

The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and any other share option schemes of the Company (whether exercised, cancelled or outstanding) to any eligible person in any 12-month period shall not exceed 1% of the issued shares from time to time unless such grant has been duly approved by an ordinary resolution of the shareholders in a general meeting at which the relevant eligible person and his associates are abstained from voting. In calculating the aforesaid limit of 1%, options that have lapsed shall not be counted. 7,624,113 shares, 9,295,222 shares and 11,361,870 shares were issued in 2011, 2012, 2013, respectively, pursuant to the share option schemes mentioned above.

Share Award Schemes

On 13 December 2007, the Company adopted a share award scheme (the “**2007 Share Scheme**”), which was subsequently amended on 31 January 2008 and 13 May 2009, respectively. The Board may, at its absolute discretion, select any eligible persons (the “**Awarded Persons**”) to participate in the 2007 Share Scheme. Pursuant to the 2007 Share Scheme, ordinary shares of the Company are acquired by an independent trustee at the cost of the Company or shares are allotted to the trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares are/will be held in trust for the Awarded Persons by the trustee until the end of each vesting period. Vested shares are/will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them.

Unless it is terminated by the Board, the 2007 Share Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date according to the amendment on 13 May 2009.

The number of shares to be awarded under the 2007 Share Scheme throughout its duration shall not exceed 2% of the issued share capital of the Company as of the adoption date. The maximum number of shares which may be awarded to an Awarded Person under the 2007 Share Scheme shall not exceed 1% of the issued share capital of the Company as of the adoption date.

On 13 November 2013, the Company adopted a share award scheme (the “**2013 Share Scheme**”). The Board may, at its absolute discretion, select any Awarded Persons to participate in the 2013 Share Scheme. Pursuant to the Share Scheme, ordinary shares of the Company are acquired by an independent trustee at the cost of the Company or shares are allotted to the trustee under general mandates granted or to be granted by shareholders of the Company at general meetings from time to time. These shares are/will be held in trust for the Awarded Persons by the trustee until the end of each vesting period. Vested shares are/will be transferred at no cost to the Awarded Persons. The Awarded Persons are not entitled to the dividends on the awarded shares not yet transferred to them.

Unless it is terminated by the Board, the 2013 Share Scheme shall be valid and effective for a term of fifteen years commencing on the adoption date.

The number of shares to be awarded under the 2013 Share Scheme throughout its duration shall not exceed 3% of the issued share capital of the Company as of the adoption date. The maximum number of shares which may be awarded to an Awarded Person under the 2013 Share Scheme shall not exceed 1% of the issued share capital of the Company as of the adoption date.

Share Options Granted to Directors

For the years ended 31 December 2011, 2012 and 2013, no share options were granted to any Executive, Non-executive or Independent Non-executive Directors.

Compensation of Directors

Our Directors receive compensation including fees, salaries, bonuses, allowances and benefits in kind, share-based compensation expenses and contribution to pension plans for their services to the Company. See “*Directors and Management—Compensation of Directors and Senior Management*”.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on laws and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of the Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

Cayman Islands

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under Existing Cayman Islands Laws:

Payments of interest, premium and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest, premium and principal to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Notes. The Notes themselves will be stampable if they are executed in or brought into the Cayman Islands.

United States Federal Income Taxation

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. This tax disclosure was written in connection with the promotion or marketing of the Notes by the Issuer, and it cannot be used for the purpose of avoiding penalties that may be asserted under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Prospective investors should seek their own advice based on their particular circumstances from independent tax advisers.

The following is a discussion of certain U.S. federal income tax consequences of the ownership and disposition of Notes to the U.S. Holders described below. This disclosure addresses only Notes that are denominated in U.S. dollars and issued in registered form. It does not address Notes issued in bearer form, which generally may not be offered or sold in the United States or to U.S. persons (as defined for U.S. federal income tax purposes). A U.S. person that acquires a Bearer Note may be subject to adverse tax implications. This discussion applies only to Notes that are purchased by a U.S. Holder described below in their initial offering at the "issue price," which will equal the first price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and holds the Notes as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a U.S. Holder in light of its particular circumstances or to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- regulated investment companies;
- real estate investment trusts;
- dealers in securities or foreign currencies;
- traders in securities that elect to use a mark-to-market method of tax accounting;
- persons holding Notes as part of a straddle, conversion transaction or other integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax;
- tax-exempt entities, including “individual retirement accounts” and “Roth IRAs”; or
- persons owning Notes in connection with a trade or business conducted outside the United States.

If a partnership owns the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships and persons that are partners in a partnership owning Notes should consult their tax advisers regarding the tax consequences of acquiring, owning and disposing of Notes.

This discussion does not address the potential application of the provisions of the Code known as the “Medicare contribution tax”.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and the PRC (the “**Treaty**”), all as of the date hereof. These laws are subject to change, possibly with retroactive effect. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion applies only to Notes that are classified as indebtedness for U.S. federal income tax purposes. This discussion does not apply to every type of Note that may be issued under the Programme, including Dual Currency Notes, Index Linked Notes, Partly Paid Notes and any other Notes that are subject to different U.S. federal income tax consequences than those described below. Additional or alternative U.S. federal income tax consequences of owning such Notes may be addressed in a prospectus supplement or Pricing Supplement.

As used herein, the term “U.S. Holder” means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;

- a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Payments of Stated Interest. Stated interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes, provided that the interest is “qualified stated interest” (as defined below). Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income, which may be relevant to a U.S. Holder in calculating the U.S. Holder’s foreign tax credit limitation. As described in “— *People’s Republic of China*”, if we were deemed to be a “resident enterprise” under PRC tax law, interest paid by us may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of the interest income will include any amounts withheld in respect of PRC tax. Subject to applicable limitations, which vary depending upon the U.S. Holder’s circumstances, PRC taxes withheld from interest payments (at a rate not exceeding the applicable rate provided in the Treaty, in the case of a U.S. Holder that is eligible for the benefits of the Treaty) generally will be creditable against a U.S. Holder’s U.S. federal income tax liability. Instead of claiming a credit, a U.S. Holder may elect to deduct any such PRC taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign tax credits in their particular circumstances. Special rules governing the treatment of interest paid with respect to Original Issue Discount Notes, certain Floating Rate Notes, and Short-Term Notes (each as defined below) are described below.

Original Issue Discount. A Note that is issued at an issue price less than its “stated redemption price at maturity” will be considered to have been issued at an original issue discount for U.S. federal income tax purposes (and will be referred to in this section as an “Original Issue Discount Note”) unless the Note satisfies a *de minimis* threshold (as described below) or is a Short-Term Note (as defined below). The “stated redemption price at maturity” of a Note will equal the sum of all payments required under the Note other than payments of “qualified stated interest”. “Qualified stated interest” is stated interest unconditionally payable as a series of payments in cash or property (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest or, subject to certain conditions, based on one or more floating rates or indices.

If the difference between a Note’s stated redemption price at maturity and its issue price is less than a prescribed *de minimis* amount (generally, 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity) then the Note will not be considered to have original issue discount.

A U.S. Holder of an Original Issue Discount Note will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes (as described in “—*Payments of Stated Interest*” above). In addition, a U.S. Holder of an Original Issue Discount Note will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. Under this method, U.S. Holders of Original Issue Discount Notes generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest, original issue discount or *de minimis* original issue discount, as adjusted by any amortisable bond premium) in accordance with a constant-yield method based on the compounding of interest (a “**constant-yield election**”).

Under applicable Treasury regulations, if the Issuer or the holder has an unconditional option to redeem a Note prior to its stated maturity date and certain other conditions are met, this option will be presumed to be exercised if, by utilising any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, in the case of the Issuer's option, the yield on the Note would be lower than its yield to the stated maturity date or, in the case of the holder's option, the yield on the Note would be higher than its yield to the stated maturity date. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of a Note is generally the issue price of the Note, increased by the amount of original issue discount includible in gross income of any holder and decreased by the amount of any payment previously made, other than a payment of qualified stated interest.

Floating Rate Notes

General. A Floating Rate Note generally will qualify as a "variable rate debt instrument" for U.S. federal income tax purposes if:

- the issue price does not exceed the total noncontingent principal payments due under the Floating Rate Note by more than a specified *de minimis* amount;
- it provides for stated interest, paid or compounded at least annually, at current values of:
 - one or more qualified floating rates,
 - a single fixed rate and one or more qualified floating rates,
 - a single objective rate, or
 - a single fixed rate and a single objective rate that is a qualified inverse floating rate,each as defined in the applicable Treasury regulations; and
- certain other conditions, as set forth in the applicable Treasury regulations, are satisfied.

In general, a "qualified floating rate" is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Note is denominated. For example, the LIBOR rate will generally be treated as a qualified floating rate. In general, an "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula that is based on objective financial or economic information. A "qualified inverse floating rate" is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate.

Unless otherwise provided in the applicable Pricing Supplement, it is expected, and the discussion below assumes, that a Floating Rate Note will qualify as a "variable rate debt instrument". If a Floating Rate Note does not qualify as a "variable rate debt instrument," then the Floating Rate Note will be treated as a "contingent payment debt instrument" for U.S. federal income tax purposes and the applicable Pricing Supplement will describe certain U.S. federal income tax consequences to U.S. Holders of owning and disposing of such Notes.

Floating Rate Notes That Provide for a Single Variable Rate. All stated interest on a Floating Rate Note will constitute qualified stated interest (as described under “—Original Issue Discount” above) and will be taxable accordingly if:

- the Floating Rate Note provides for stated interest at a single variable rate throughout the term thereof; and
- the stated interest on the Floating Rate Note is unconditionally payable in cash or other property (other than debt instruments of the issuer) at least annually.

Thus, such a Floating Rate Note will generally not be treated as issued with original issue discount unless the Floating Rate Note is issued at an issue price below its stated redemption price at maturity and the difference between the issue price and the stated redemption price at maturity is equal to or in excess of the specified *de minimis* amount described in “—Original Issue Discount”. For this purpose, if a Floating Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate and if the variable rate on the Floating Rate Note’s issue date is intended to approximate the fixed rate (*e.g.*, the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25%), then the fixed rate and the variable rate together will constitute a single variable rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Note (*e.g.*, two or more qualified floating rates with values within 0.25% of each other as determined on the issue date) will be treated as a single qualified floating rate.

If a Floating Rate Note that provides for stated interest at a single variable rate is issued with original issue discount, as discussed above, the amount of qualified stated interest and the amount of original issue discount that accrues during an accrual period on such a Floating Rate Note is determined under the rules applicable to fixed rate debt instruments, discussed under “—Original Issue Discount” above, by assuming that the variable rate is a fixed rate equal to:

- in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate; or
- in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Floating Rate Note.

The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period pursuant to the foregoing rules.

Floating Rate Notes That Provide for Multiple Rates. If a Floating Rate Note provides for multiple floating interest rates, then the applicable Pricing Supplement will describe certain U.S. federal income tax consequences to U.S. Holders of owning and disposing of such Notes.

Short-Term Notes. A Note that matures one year or less from its date of issuance (a “**Short-Term Note**”) will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash-method U.S. Holder of a Short-Term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so (but will be required to include in income any interest paid to such U.S. Holder). U.S. Holders that so elect and certain other U.S. Holders, including those that report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant-yield method based on daily compounding. In the case of a U.S. Holder that is not required and does not elect to include the discount in income currently, any gain realised on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the discount accrued on a straight-line

basis (or, if elected, according to a constant-yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, such U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry Short-Term Notes in an amount not exceeding the accrued discount that has not been included in income.

Amortisable Bond Premium. If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note other than qualified stated interest, the U.S. Holder will be considered to have purchased the Note with amortisable bond premium equal to this excess. The U.S. Holder may elect to amortise this premium, using a constant-yield method, over the remaining term of the Note. Special rules may apply in the case of Notes that are subject to optional redemption. A U.S. Holder may generally use the amortisable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. Holder's income with respect to the Note in that accrual period. A U.S. Holder that elects to amortise bond premium must reduce its tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations held by the U.S. Holder on or after the first day of the taxable year in which the election is made and may be revoked only with the consent of the Internal Revenue Service.

If a U.S. Holder makes a constant-yield election (as described under “—*Original Issue Discount*” above) for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the U.S. Holder's debt instruments with amortisable bond premium and may be revoked only with the permission of the Internal Revenue Service with respect to debt instruments held or acquired after the election.

Sale, Exchange or Retirement of the Notes. Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. For these purposes, the amount realised does not include any amount attributable to accrued qualified stated interest, which will be treated as interest as described under “—*Payments of Stated Interest*” above. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in the Note, increased by any original issue discount included in income and decreased by any bond premium previously amortised and principal payments or payments other than qualified stated interest previously received.

Except as described below, gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. An exception to this general rule applies in the case of a Short-Term Note to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See “—*Short-Term Notes*” above.

Gain or loss will generally be U.S.-source for purposes of computing a U.S. Holder's foreign tax credit limitation. However, if as described in “—*People's Republic of China*” above U.S. Holders are subject to PRC tax on the disposition of Notes, and such U.S. Holders are eligible for the benefits of the Treaty, such U.S. Holders may be able to treat the gain as PRC-source under the Treaty. U.S. Holders should consult their tax advisers as to whether they would be able to credit any PRC tax on dispositions against their U.S. federal income tax liabilities in their particular circumstances.

Information Reporting and Backup Withholding. Information returns will generally be filed with the Internal Revenue Service in connection with payments of interest and proceeds from a sale or other disposition of the Notes that are made within the United States or through certain U.S. or U.S.-related financial intermediaries. A U.S. Holder may be subject to U.S. backup withholding on these payments if the U.S. Holder fails to provide its taxpayer identification number to the payor and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain individual U.S. Holders (and under proposed Treasury regulations, certain entities) may be required to report to the Internal Revenue Service certain information relating to their beneficial ownership of Notes not held through a U.S. financial institution. U.S. Holders who fail to report the required information could be subject to substantial penalties.

People's Republic of China

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Taxation on Interest and Capital Gains.

Under the CIT Law, an enterprise established outside of China with a “*de facto* management body” within China is deemed a “resident enterprise,” meaning that it can be treated as a PRC enterprise for enterprise income tax purposes. The implementing rules of the CIT Law define “*de facto* management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 (“**Circular 82**”) provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a “resident enterprise” with a “*de facto* management body” located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. Although the Circular 82 only applies to offshore enterprises controlled by enterprises or enterprise groups located within the PRC, not including those controlled by PRC individuals, the determining criteria set forth in the Circular 82 may reflect the SAT’s general position on how the “*de facto* management body” test may be applied in determining the tax resident status of all offshore enterprises. On 1 September 2011, the State Administration of Taxation issued *Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group* (“**Circular 45**”), to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise “controlled by a PRC enterprise or PRC enterprise group”. Circular 45 provides two ways for a foreign enterprise “controlled by a PRC enterprise or a PRC enterprise group” to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its *de facto* management body is located in China based on the criteria set forth in Circular 82, and, if it makes such determination, it must apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

The Company holds its shareholders’ meeting and board meetings outside the PRC and keep its shareholders’ list outside the PRC. However, some of the Company’s directors and senior management are currently based inside the PRC. This may be relevant for the tax authorities to determine whether it is a PRC resident enterprise for tax purposes.

Although it is unclear under PRC tax law whether the Company has a “*de facto* management body” located in the PRC for PRC tax purposes, it intends to take the position that it is not a PRC resident enterprise for tax purposes. The Company cannot assure you that it will not be considered to be a “resident enterprise” by the tax authorities and, therefore, be subject to enterprise income tax at a rate of 25% on its global income in the future. So long as the Company is not considered to be a PRC

resident enterprise for CIT Law purposes, the payment of interest on the Notes to the non-PRC resident holders of the Notes will not be subject to PRC withholding tax. However, if the Company were determined to be a PRC resident enterprise, such interest payments and gains in sales of notes may be subject to PRC withholding tax.

Under the CIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-source income derived by nonresident enterprises, subject to adjustment by applicable treaty. The CIT Law's implementation regulations further set forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in China. If the Company is deemed a PRC resident enterprise for tax purposes, interest paid to non-PRC resident note holders may be regarded as PRC-source and therefore be subject to PRC withholding tax at a rate of 10% for non-PRC resident enterprise note holders and 20% for non-PRC resident individual note holders (or a lower treaty rate, if any). Any gains realised on the transfer of the Notes by such investors may also be subject to PRC income tax at a rate of 10% for non-PRC resident enterprise note holders or 20% for non-PRC resident individual note holders, if such gains are regarded as PRC-sourced.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC, as is expected to be the case) of a Note.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

- (i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the “**SDO**”)).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the

Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 24 March 2014, the Council of the European Union adopted a directive amending the Savings Directive which, when implemented in future, will potentially broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax (“FTT”)

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain transactions relating to in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution (as defined), and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg or the CMU Service (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Clearing Systems

DTC

DTC is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the clearance and settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealer, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to DTC Notes as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has a reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Transfer Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for its customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU Service

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (“**CMU Members**”) of capital markets instruments (“**CMU Notes**”) which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong Kong Capital Markets Association and “authorised institutions” under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Series of Notes represented by a Global Note Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Note Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Note Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Note Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Note Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions

received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Note Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

TRANSFER RESTRICTIONS

Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:
 - (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and
 - (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:
 - (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or
 - (b) to the Issuer; or,
 - (c) in the case of Unrestricted Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB,

in each case in accordance with any applicable securities laws of any state of the United States;

- (iii) it understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

On or prior to the fortieth day after the relevant issue date, Notes represented by an interest in an Unrestricted Global Note Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Note Certificate only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the Trust Deed) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Global Note Certificate, as described above under “*Form of the Notes*”.

Notes represented by an interest in a Restricted Global Note Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Note Certificate, but only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the Trust Deed) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Note Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Note Certificate and become an interest in a Note represented by a Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Note Certificate.

Rule 144A Notes

Each purchaser of Restricted Notes in reliance on Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

- (i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;
- (ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of its affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions applicable to the Restricted Notes;
- (iii) the purchaser understands that the Restricted Global Note Certificate and any restricted Individual Note Certificate (a “**Restricted Individual Note Certificate**”) will bear a legend to the following effect, unless the relevant Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER OR ITS AFFILIATES.

- (iv) if it is acquiring any Notes for the account of one or more QIBs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (v) the purchaser understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Upon the transfer, exchange or replacement of a Restricted Global Note Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in a Restricted Global Note Certificate and become an interest in an Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Note Certificate.

Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

PRC CURRENCY CONTROLS

The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Notes. Prospective holders of Notes who are in any doubt as to PRC currency controls are advised to consult their own professional advisers.

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under the applicable PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau and Association of Southeast Asian Nations (ASZAN). On 17 June 2010, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (關於擴大跨境貿易人民幣結算試點有關問題的通知) (the “**Circular 2010**”), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover 22 provinces and cities, and (iii) the restriction on designated offshore districts has been uplifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by approved pilot enterprises in designated pilot districts in the PRC. In August 2011, the PRC government further expanded Renminbi cross-border trade settlement nationwide.

On 5 July 2013, PBOC issued the Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (Yin Fa [2013] No. 168) (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the “**Circular 2013**”), pursuant to which on the basis of three principles of “know your customer”, “know your business”, and “due diligence”, domestic banks can directly handle the cross-border settlement by virtual of business vouchers provided by enterprises (except for enterprises on the key regulatory list of regulating Renminbi cross-border settlement in export goods trade) or Receipt/Payment Instructions on Renminbi Cross-border Settlement.

On 6 December 2013, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues concerning Improving the Foreign Exchange Administration of Trade Financing Business of Banks (國家外匯管理局關於完善銀行貿易融資業務外匯管理有關問題的通知) (“**Circular 44**”), which aims to strengthen banks’ review and examination of legal compliance in trade financing as well as the systematic management of foreign exchange receipts by enterprises.

The enforcement and application of Circular 2010, Circular 2013 and Circular 44 will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying Circular 2010, Circular 2013 and Circular 44 and impose conditions for settlement of current account items.

Capital Account Items

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign-invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign-invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may grant approval for a foreign entity to make a capital contribution or a shareholder's loan to a foreign-invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign-invested enterprise may be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, SAFE promulgated the SAFE Circular, which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the Renminbi accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of a domestic residence of PRC, such onshore enterprise shall be required to submit the relevant commerce administrative authority's prior approval which shall clearly indicate such Renminbi transaction, to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 12 October 2011, MOFCOM promulgated the MOFCOM RMB FDI Circular. In accordance with the MOFCOM RMB FDI Circular, MOFCOM and its local counterparts are authorised to approve RMB FDI in accordance with existing PRC laws and regulations regarding foreign investment, with the following exceptions which require the application to be signed by the provincial counterpart of MOFCOM and be submitted to MOFCOM for approval: (i) RMB FDI with the capital contribution in Renminbi of RMB300 million or more; (ii) RMB FDI in financing guarantee, financing lease, micro financing or auction industries; (iii) RMB FDI in foreign-invested investment companies, venture capital or equity investment enterprises; or (iv) RMB FDI in cement, iron and steel, electrolytic aluminum, shipbuilding or other policy-sensitive sectors. In addition, RMB FDI in real estate sector is allowed following the existing rules and regulations of foreign investment in real estate, although Renminbi foreign debt remains unavailable to foreign-invested real estate enterprises. The proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placement or share transfers by agreement.

On 13 October 2011, PBOC promulgated the PBOC RMB FDI Measures, pursuant to which PBOC special approval for RMB FDI and shareholder loans which was previously required is no longer necessary. The PBOC RMB FDI Measures provide that, among others, foreign invested enterprises are required to conduct registrations with the local branch of PBOC within ten working days after obtaining the business licences for the purpose of Renminbi settlement, a foreign investor is allowed to open a Renminbi expense account to reimburse some expenses before the establishment of a foreign-invested enterprise and the balance in such an account can be transferred to the Renminbi capital account of such foreign-invested enterprise when it is established, commercial banks can remit a foreign investor's Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries out of the PRC after reviewing certain requisite documents, if a foreign investor intends to use its Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries, the foreign investor may open a Renminbi re-investment account to pool the Renminbi proceeds, and the PRC parties selling stake in domestic enterprises to foreign investors can open Renminbi accounts and receive the purchase price in Renminbi paid by foreign investors. The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign-invested enterprise includes its Renminbi debt and

foreign currency debt from its offshore shareholders, offshore affiliates and offshore financial institutions, and a foreign invested enterprise may open a Renminbi account to receive its Renminbi proceeds borrowed offshore by submitting the Renminbi loan contract to the commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the commercial bank.

On 14 June 2012, the PBOC issued the Circular on Firming up the Detailed Operation Rules of RMB Settlement in Direct Foreign Investment (Yin Fa [2012] No. 165) (關於明確外商直接投資人民幣結算業務操作細則的通知), pursuant to which, subject to the administrative provisions on bank settlement accounts, foreign investors should open an Renminbi basic deposit account, an Renminbi special deposit account and an Renminbi general deposit account of overseas institutions. Foreign-invested enterprises that are engaged in direct Renminbi investment business activities should choose a settlement bank as its main reporting bank to register its enterprise information and submit modified information to the branch office of PBOC in the location where they registered through the Renminbi cross-border receipt and payment information management system.

On 19 November 2012, SAFE issued the Circular on Further Improvement and Adjustment of the Policies for Foreign Exchange Administration relating to Direct Investment (關於進一步改進和調整直接投資外匯管理政策的通知) (“**Circular 59**”) which relaxes many of the registration and verification processes required to be undertaken in relation to Renminbi remittances involving a foreign-invested enterprise.

On 11 May 2013, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Promulgation of the Regulations on the Foreign Exchange Administration of Foreign Direct Investments in PRC together with the Supporting Documents thereof (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) (“**Circular 21**”), in order to further clarify the current foreign exchange regulations over foreign direct investment.

On 23 June 2013, SAFE promulgated the Notice of the Adjustment to the Approval Authority on Certain Capital Items for Foreign Exchange Business (關於調整部份資本專案外匯業務審批許可權的通知), which delegates additional approval authority to the local branches of SAFE.

On 5 July 2013, the PBOC issued the Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (Yin Fa [2013] No. 168) (關於簡化跨境人民幣業務流程和完善有關政策的通知), pursuant to which domestic non-financial institutions may apply to the domestic bank for the Renminbi offshore lending settlement business. The domestic agent bank extends the Renminbi account financing maturity of overseas participating banks to one year and the financing ratio of the account shall not exceed 3% of the balance of various Renminbi deposits of this domestic agent bank at the end of last year. Fund remittance and transfer may be carried out between the Renminbi interbank current account opened by the overseas participating bank in the domestic agent bank and the Renminbi account opened by the overseas participating bank in the offshore clearing bank for Renminbi business due to the need of settlement. Fund remittance and transfer may be carried out among Renminbi clearing accounts opened by various offshore clearing banks for Renminbi business in the territory of China due to the need of settlement.

On 10 January 2014, SAFE issued the Notice of Further Improvement and Upgrade of Foreign Exchange Management Policy on Capital Account Items (國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知) (“**Circular 2014**”), which further relaxes restrictions upon offshore lending activities of domestic enterprises and simplifies the administration process for the overseas remittance of profits generated by domestic institutions.

As new regulations, the above regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

The Dealers have, in a dealer agreement (the “**Dealer Agreement**”) dated 10 April 2014, agreed with the Issuer a basis upon which they or any of them may from time to time agree to severally, and not jointly, subscribe Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the “**Issue Price**”), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer has agreed to reimburse the Arranger certain of its expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers certain of their expenses incurred in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) (the “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes.

In connection with each Series of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or their respective subsidiaries or affiliates at the same time as the offer and sale of each Series of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Series of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Series of Notes).

Selling Restrictions

United States of America

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that the Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or for the account or benefit of any U.S. person (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Dealer's compliance with United States securities laws

In relation to each Tranche of Notes:

- (a) *Offers/sales only in accordance with Regulation S:* Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that it has offered and sold the Notes, and will offer and sell the Notes:
 - (i) as part of their distribution, at any time; and
 - (ii) otherwise, until 40 days after the issue date in respect of the relevant Notes (the period described herein as “distribution compliance period”),

only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that:

- (A) neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes; and
 - (B) it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act; and
- (b) *Prescribed form of confirmation:* Each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it during the distribution compliance period a confirmation or notice in substantially the following form:

“The Securities covered hereby have not been and will not be registered under the United States Securities Act of 1933 (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Notes of which such Notes are a part, as determined by [*Name of Dealer or Dealers, as the case may be*], except in either case pursuant to a valid exemption from registration in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S”;

- (c) *Completion of distribution:* Each Dealer which has purchased Notes of such Tranche in accordance with the related subscription agreement, shall determine and certify to the Principal Paying Agent or the Issuer the completion of the distribution of the Notes of such Tranche purchased by it. In the case of a subscription agreement between the Issuer and more than one Dealer, the Principal Paying Agent or the Issuer shall notify each relevant Dealer when all relevant Dealers have certified as provided in this paragraph. In order to facilitate compliance by each Dealer with the foregoing, the Issuer undertakes that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by the Issuer of an offer to purchase and of any issuance of, Notes or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Notes of such Tranche;
- (d) *Placing of Restricted Registered Notes:* Each Dealer may directly or through their respective affiliates arrange for the placing of Restricted Notes in the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act) pursuant to Rule 144A under the Securities Act and in accordance with the provisions of this

Agreement, provided that each person to whom Restricted Notes are offered or sold is, or such Dealer reasonably believes each such person to be, a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer and provided further that the aggregate principal amount of Restricted Notes sold by such Dealer to each Qualified Institutional Buyer pursuant to this paragraph is not less than U.S.\$200,000 (or its equivalent in other currencies). In addition, the affiliate through which the mandated Dealer arranges for the placing of Restricted Notes in the United States or (as the case may be) such other Dealer or its affiliate shall be a U.S. broker-dealer that is registered under the Exchange Act; and

- (e) *No Solicitation*: Each Dealer has represented, warranted and undertaken to the Issuer that neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has solicited or will solicit any offer to buy or offer to sell the Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) in the United States.

Dealers' compliance with the United States tax laws

Where the relevant Pricing Supplement for Bearer Notes specifies that the D Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of the D Rules. Where the relevant Pricing Supplement for Bearer Notes specifies that the C Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of C Rules. Where the relevant Pricing Supplement specifies that neither the C Rules or D Rules are applicable, the Notes will not be issued in accordance with the provisions of either the D Rules or the C Rules.

The D Rules

Where the D Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of Notes, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that:

- (a) *Restrictions on offers etc.*: Except to the extent permitted under the D Rules:
 - (i) *No offers etc. to United States or United States persons*: It has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person; and
 - (ii) *No delivery of Definitive Notes in the United States*: It has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period,
- (b) *Internal compliance procedures*: It has, and throughout the restricted period will have, in effect procedures reasonably *designed* to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) *Additional provision if Dealer is a United States person*: If it is a United States person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of rules in substantially the same form as United States Treasury Regulation § 1.163-5(c)(2)(i)(D)(6) for purposes of Section 4701 of the U.S. Internal Revenue Code;
- (d) *Affiliates*: With respect to each affiliate of such Dealer that acquires Notes from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has undertaken, and each further Dealer appointed under the Programme will be

required to undertake to the Issuer that it will obtain from such affiliate for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (*Restrictions on offers, etc.*), paragraph (b) (*Internal procedures*) paragraph (c) (*Additional provision if Dealer is a United States person*) and paragraph (d) (*Affiliates*); and

- (e) *Contracts*: With respect to each person, other than the Dealer's affiliate, with whom such Dealer enters into a written contract, as defined in United States Treasury Regulation § 1.163- 5(c)(2)(i)(D)(4) or any successor regulation in substantially the same form, such Dealer has undertaken, and each further Dealer appointed under the Program will be required to undertake to the Issuer that it will obtain from such person for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (*Restrictions on offers, etc.*), paragraph (b) (*Internal procedures*) and paragraph (c) (*Additional provision if United States person*). Notes issued pursuant to the D Rules and any Coupons and Talons appertaining thereto will bear the following legend:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATION PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The C Rules

Where the C Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to Issuer that, in connection with the original issuance of the Notes:

- (a) *No offers etc. in United States*: It has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and
- (b) *No communications with United States*: It has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Notes.

Interpretation

Terms used in the paragraph “*Dealers’ compliance with United States securities laws*” have the meanings given to them by Regulation S under the Securities Act. Terms used in the paragraphs “*The D Rules*” and “*The C Rules*” have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the C Rules and the D Rules.

Index- or currency-linked Notes

Each issuance of index- or currency-linked Notes shall be subject to additional U.S. selling restrictions as the relevant Dealer(s) shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive each, a “Relevant Member State”, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto (or are the subject of the offering contemplated by a supplemental offering circular, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) *Approved prospectus*: If the Pricing Supplement or supplemental offering circular in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus which is not a supplemental offering circular has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) *Qualified Investors*: At any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) *Fewer than 100 offerees*: At any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) *Other exempt offers*: At any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (a) *No deposit-taking*: In relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

- (b) *Financial promotion*: It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, if it was not an authorised person, apply to the Issuer.
- (c) *General compliance*: It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

PRC

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes.

Hong Kong

In relation to each Series of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a “structured product” as defined in the SFO, other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the “**Companies (Winding Up and Miscellaneous Provisions) Ordinance**”) or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended) (the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other relevant laws and regulations of Japan.

Singapore

Each Dealer has acknowledged that this Offering Circular will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”), (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the SFA, (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA, except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

The Netherlands

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that with effect from and including 1 January 2012 it will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

- (a) such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in The Netherlands; or
- (b) a standard exemption logo and wording is disclosed as required by article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*); or
- (c) such offer is otherwise made in circumstances in which article 5:20(5) of the Dutch Financial Supervision Act is not applicable,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this paragraph, the expressions (i) an "offer of Notes to the public" in relation to any Notes in the Netherlands; and (ii) "Prospectus Directive", have the meaning given to them in paragraph 2 above.

General

These selling restrictions may be modified by the agreement of each of the Issuer and the Dealer following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. Listing

Application has been made to the SEHK for the listing of the Programme by way of debt issues to professional investors (as defined in the SFO) only during the 12-month period from the date of this Offering Circular on the SEHK. The issue price of Notes listed on the SEHK will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

2. Authorisation

The establishment of the Programme and the issue of the Notes thereunder were authorised by a resolution of the board of directors of the Issuer passed on 28 March 2014. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. Auditor

The Issuer's audited consolidated financial statements as at and for the years ended 31 December 2011, 2012 and 2013, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in its report appearing herein.

4. Documents on Display

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at Tencent Building, Kejizhongyi Avenue, Hi-tech Park, Nanshan District, Shenzhen, 518057, the PRC and the specified office of the Principal Paying Agent at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

- (i) the articles of association of the Issuer;
- (ii) the audited consolidated financial statements of the Issuer for the years ended 31 December 2011, 2012 and 2013;
- (iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of the Issuer;
- (iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity);
- (v) a copy of this Offering Circular together with any supplement to this Offering Circular;
- (vi) the Trust Deed (which contain the forms of the Notes in global and definitive form);

(vii) the Agency Agreement;

(viii) the Dealer Agreement; and

(ix) the Programme Manual.

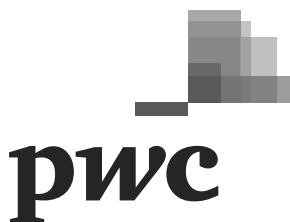
5. Clearing of the Notes

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). We may also apply to have Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. In addition, we may make an application for any Restricted Notes or DTC Unrestricted Notes to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Notes will be confirmed in the relevant Notes. The relevant ISIN, the Common Code, the Committee on the Uniform Security Identification Procedure (“CUSIP”) number and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

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Independent Auditor's Report



羅兵咸永道

To the shareholders of Tencent Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 72 to 187*, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

* being pages F-4 to F-119 of this Offering Circular

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 March 2014

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	As at 31 December	
		2013 RMB'Million	2012 RMB'Million
ASSETS			
Non-current assets			
Fixed assets	6	8,693	7,403
Construction in progress	7	2,041	534
Investment properties		–	22
Land use rights	8	871	794
Intangible assets	9	4,103	4,719
Interests in associates	11	12,170	7,310
Investment in joint ventures		9	35
Deferred income tax assets	28	431	169
Available-for-sale financial assets	13	12,515	5,633
Prepayments, deposits and other assets	16	1,296	1,236
Term deposits	17	11,420	10,892
		53,549	38,747
Current assets			
Inventories	14	1,384	568
Accounts receivable	15	2,955	2,354
Prepayments, deposits and other assets	16	5,365	3,878
Term deposits	17	19,623	13,806
Restricted cash	23	4,131	2,520
Cash and cash equivalents	18	20,228	13,383
		53,686	36,509
Total assets		107,235	75,256

Consolidated Statement of Financial Position

As at 31 December 2013

		As at 31 December	
	Note	2013 RMB'Million	2012 RMB'Million
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	–	–
Share premium	19	2,846	2,880
Shares held for share award schemes	19	(871)	(667)
Other reserves	20	3,746	816
Retained earnings		52,224	38,269
		<u>57,945</u>	<u>41,298</u>
Non-controlling interests		<u>518</u>	<u>850</u>
Total equity		<u>58,463</u>	<u>42,148</u>
LIABILITIES			
Non-current liabilities			
Borrowings	25	3,323	2,106
Long-term notes payable	26	9,141	7,517
Deferred income tax liabilities	28	1,441	1,312
Long-term payables	24	1,600	1,508
		<u>15,505</u>	<u>12,443</u>

Consolidated Statement of Financial Position

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	RMB'Million	RMB'Million
Current liabilities			
Accounts payable	22	6,680	4,212
Other payables and accruals	23	10,246	6,301
Borrowings	25	2,589	1,077
Current income tax liabilities		1,318	420
Other tax liabilities	37(b)	593	540
Deferred revenue	27	11,841	8,115
		33,267	20,665
Total liabilities		48,772	33,108
Total equity and liabilities		107,235	75,256
Net current assets		20,419	15,844
Total assets less current liabilities		73,968	54,591

The notes on pages 84 to 187* are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 187** were approved by the Board of Directors on 19 March 2014 and were signed on its behalf:

* being pages F-16 to F-119 of this Offering Circular

** being pages F-4 to F-119 of this Offering Circular

Statement of Financial Position – The Company

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Intangible assets		21	10
Investments in subsidiaries	10(a)	10,684	9,419
Contribution to Share Scheme Trust	10(d)	2	12
		<u>10,707</u>	<u>9,441</u>
Current assets			
Amounts due from subsidiaries	10(c)	4,934	4,906
Prepayments, deposits and other receivables		114	25
Cash and cash equivalents	18	346	166
		<u>5,394</u>	<u>5,097</u>
Total assets		<u>16,101</u>	<u>14,538</u>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	–	–
Share premium	19	2,846	2,880
Shares held for share award schemes	19	(871)	(667)
Retained earnings		2,295	2,456
Total equity		<u>4,270</u>	<u>4,669</u>

Statement of Financial Position – The Company

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	RMB'Million	RMB'Million
LIABILITIES			
Non-current liabilities			
Long-term notes payable	26	<u>9,141</u>	<u>7,517</u>
Current liabilities			
Amounts due to subsidiaries	10(c)	2,632	2,308
Other payables and accruals		<u>58</u>	<u>44</u>
		<u>2,690</u>	<u>2,352</u>
Total liabilities		<u>11,831</u>	<u>9,869</u>
Total equity and liabilities		<u>16,101</u>	<u>14,538</u>
Net current assets		<u>2,704</u>	<u>2,745</u>
Total assets less current liabilities		<u>13,411</u>	<u>12,186</u>

The notes on pages 84 to 187* are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 187** were approved by the Board of Directors on 19 March 2014 and were signed on its behalf:

* being pages F-16 to F-119 of this Offering Circular

** being pages F-4 to F-119 of this Offering Circular

Consolidated Income Statement

For the year ended 31 December 2013

	Note	Year ended 31 December	
		2013 RMB'Million	2012 RMB'Million
Revenues			
Value-added services		44,985	35,718
Online advertising		5,034	3,382
eCommerce transactions		9,796	4,428
Others		622	366
	5	<u>60,437</u>	<u>43,894</u>
Cost of revenues	29, 32	<u>(27,778)</u>	<u>(18,207)</u>
Gross profit		32,659	25,687
Interest income	30	1,314	836
Other gains/(losses), net	31	904	(284)
Selling and marketing expenses	32	(5,695)	(2,994)
General and administrative expenses	32	<u>(9,988)</u>	<u>(7,766)</u>
Operating profit		19,194	15,479
Finance costs, net	36	(84)	(348)
Share of profit/(losses) of associates		213	(54)
Share of losses of joint ventures		<u>(42)</u>	<u>(26)</u>
Profit before income tax		19,281	15,051
Income tax expense	37(a)	<u>(3,718)</u>	<u>(2,266)</u>
Profit for the year		<u>15,563</u>	<u>12,785</u>
Attributable to:			
Equity holders of the Company		15,502	12,732
Non-controlling interests		<u>61</u>	<u>53</u>
		<u>15,563</u>	<u>12,785</u>

Consolidated Income Statement

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	RMB'Million	RMB'Million
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	39(a)	<u>8.464</u>	<u>6.965</u>
– diluted	39(b)	<u>8.298</u>	<u>6.833</u>
Dividend per share			
Final dividend proposed	40	<u>HKD1.20</u>	<u>HKD1.00</u>

The notes on pages 84 to 187* are an integral part of these consolidated financial statements.

* being pages F-16 to F-119 of this Offering Circular

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'Million	RMB'Million
Profit for the year	15,563	12,785
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates	48	–
Net gains from changes in fair value of available-for-sale financial assets	2,825	824
Currency translation differences	(60)	10
	2,813	834
Total comprehensive income for the year	18,376	13,619
Attributable to:		
Equity holders of the Company	18,327	13,567
Non-controlling interests	49	52
	18,376	13,619

The notes on pages 84 to 187* are an integral part of these consolidated financial statements.

* being pages F-16 to F-119 of this Offering Circular

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

	Attributable to equity holders of the Company							Total equity RMB' Million
	Share capital RMB' Million	Share premium RMB' Million	Shares held for share		Retained earnings RMB' Million	Non-controlling Total interests RMB' Million	Total equity RMB' Million	
			award schemes RMB' Million	Other reserves RMB' Million				
Balance at 1 January 2013	–	2,880	(667)	816	38,269	41,298	850	42,148
Comprehensive income								
Profit for the year	–	–	–	–	15,502	15,502	61	15,563
Other comprehensive income:								
– share of other comprehensive income of associates	–	–	–	48	–	48	–	48
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	2,825	–	2,825	–	2,825
– currency translation differences	–	–	–	(48)	–	(48)	(12)	(60)
Total comprehensive income for the year	–	–	–	2,825	15,502	18,327	49	18,376
Transaction with owners								
Capital injection	–	–	–	–	–	–	5	5
Employee share option schemes:								
– value of employee services	–	58	–	62	–	120	9	129
– proceeds from shares issued	–	308	–	–	–	308	–	308
Employee share award schemes:								
– value of employee services	–	999	–	36	–	1,035	4	1,039
– shares purchased for share award schemes	–	–	(278)	–	–	(278)	–	(278)
– vesting of awarded shares	–	(74)	74	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	79	(79)	–	–	–
Repurchase and cancellation of shares	–	(1,325)	–	–	–	(1,325)	–	(1,325)
Dividends (Note 40)	–	–	–	–	(1,468)	(1,468)	(77)	(1,545)
Total contributions by and distributions to owners for the year	–	(34)	(204)	177	(1,547)	(1,608)	(59)	(1,667)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	2	2
Non-controlling interests arising from disposal of a subsidiary	–	–	–	–	–	–	(247)	(247)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(72)	–	(72)	(77)	(149)
Total transactions with owners for the year	–	(34)	(204)	105	(1,547)	(1,680)	(381)	(2,061)
Balance at 31 December 2013	–	2,846	(871)	3,746	52,224	57,945	518	58,463

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

	Attributable to equity holders of the Company							Total equity RMB'Million
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share		Retained earnings RMB'Million	Non-controlling Total interests RMB'Million	Total equity RMB'Million	
			award scheme RMB'Million	Other reserves RMB'Million				
Balance at 1 January 2012	–	1,951	(607)	409	26,710	28,463	625	29,088
Comprehensive income								
Profit for the year	–	–	–	–	12,732	12,732	53	12,785
Other comprehensive income:								
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	824	–	824	–	824
– currency translation differences	–	–	–	11	–	11	(1)	10
Total comprehensive income for the year	–	–	–	835	12,732	13,567	52	13,619
Transaction with owners								
Capital injection	–	–	–	–	–	–	22	22
Employee share option schemes:								
– value of employee services	–	95	–	59	–	154	22	176
– proceeds from shares issued	–	238	–	–	–	238	–	238
Employee share award schemes:								
– value of employee services	–	677	–	45	–	722	7	729
– shares purchased for share award schemes	–	–	(121)	–	–	(121)	–	(121)
– vesting of awarded shares	–	(61)	61	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	65	(65)	–	–	–
Repurchase and cancellation of shares	–	(20)	–	–	–	(20)	–	(20)
Dividends	–	–	–	–	(1,108)	(1,108)	(117)	(1,225)
Total contributions by and distributions to owners for the year	–	929	(60)	169	(1,173)	(135)	(66)	(201)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	248	248
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(240)	–	(240)	(9)	(249)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	–	–	–	(357)	–	(357)	–	(357)
Total transactions with owners for the year	–	929	(60)	(428)	(1,173)	(732)	173	(559)
Balance at 31 December 2012	–	2,880	(667)	816	38,269	41,298	850	42,148

The notes on pages 84 to 187* are an integral part of these consolidated financial statements.

* being pages F-16 to F-119 of this Offering Circular

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	Year ended 31 December	
		2013 RMB'Million	2012 RMB'Million
Cash flows from operating activities			
Cash generated from operations	41(a)	27,492	21,654
Income tax paid		(3,118)	(2,225)
Net cash flows generated from operating activities		24,374	19,429
Cash flows from investing activities			
Proceeds/(payments) for business combinations, net of cash acquired		4	(435)
Proceeds from disposal of subsidiary		203	–
Purchase of fixed assets, construction in progress and investment properties		(4,788)	(3,657)
Proceeds from disposals of fixed assets	41(a)	17	4
Payments for interests in associates		(4,456)	(3,668)
Payments for investment in joint ventures		(9)	–
Purchase/prepayment of intangible assets		(1,200)	(869)
Purchase/prepayment of land use rights		(93)	(313)
Purchase of available-for-sale financial assets		(3,651)	(557)
Proceeds from disposal of interests in associates		155	111
Payments for loan to associates		(20)	–
Payments for loan to joint ventures		(38)	(34)
Receipt from maturity of term deposits with initial term of over three months		15,950	18,532
Placement of term deposits with initial term over three months		(22,295)	(29,513)
Refund of restricted cash		–	3,063
Interest received		536	626
Dividends received		551	440
Net cash flows used in investing activities		(19,134)	(16,270)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	2,320	982
Repayment of short-term borrowings	(986)	(8,024)
Payment for derivative financial instruments in relation to short-term borrowings	–	(42)
Proceeds from long-term borrowings	2,846	2,215
Repayment of long-term borrowings	(1,328)	–
Net proceeds from issuance of long-term notes	1,847	3,768
Proceeds from issuance of ordinary shares	308	238
Payments for repurchase of shares	(1,325)	(20)
Payments for purchase of shares for share award schemes	(278)	(121)
Proceeds from capital injection from non-controlling interests	5	22
Dividends paid to the Company's shareholders	(1,468)	(1,108)
Dividends paid to non-controlling interests	(73)	(117)
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	(160)	(179)
Net cash flows generated from/(used in) financing activities	1,708	(2,386)
Net increase in cash and cash equivalents	6,948	773
Cash and cash equivalents at beginning of the year	13,383	12,612
Exchange losses on cash and cash equivalents	(103)	(2)
Cash and cash equivalents at end of the year	20,228	13,383

The notes on pages 84 to 187* are an integral part of these consolidated financial statements.

* being pages F-16 to F-119 of this Offering Circular

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of Internet and mobile value-added services (“VAS”), online advertising services and eCommerce transactions services to users in the People’s Republic of China (the “PRC”).

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited (“Tencent Computer”), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the “Registered Shareholders”).

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited (“Tencent Technology”), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Under a series of contractual arrangements (collectively, “Structure Contracts”) entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, recognise and receive substantially all the economic benefits of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer without making any payment; and
- the right to control the management and financial and operating policies of Tencent Computer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.2(a) and Note 10) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

The consolidated financial statements of the Group have been approved for issue by the board of directors of the Company (the "Board") on 19 March 2014.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures

(a) New standards, revised standards and amendments to standards adopted by the Group

The following new standards, revised standards and amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The Group has applied this amendment from 1 January 2013 and present the OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently.
- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group has applied this revised standard from 1 January 2013 and management considered that this revised standard does not have any impact on the Group's consolidated financial statements as it does not have a defined benefit plan.
- Amendment to IFRS 1, 'First time adoption', on government loans. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The Group has applied this revised standard from 1 January 2013 and management considered that this revised standard does not have any impact on the Group's consolidated financial statements as it does not have any government loans.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(a) New standards, revised standards and amendments to standards adopted by the Group (Cont'd)

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. The amendment require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group has not entered into any netting arrangement and management of the Group considered that the adoption of amendment to IFRS 7 does not have a significant impact on the Group's consolidated financial statements.
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has applied this revised standard from 1 January 2013 and such adoption does not have a significant impact on the Group's consolidated financial statements.
- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint ventures is no longer permitted. The Group has applied this revised standard from 1 January 2013 and management considered that this standard does not have a significant impact on the Group's consolidated financial statements.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The Group has applied this standard on disclosures in its consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(a) New standards, revised standards and amendments to standards adopted by the Group (Cont'd)

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The adoption of this standard only affects disclosures on financial assets and financial liabilities in the Group's consolidated financial statements.
- The Group also adopted the IASB's improvements to IFRS published in June 2011, which are relevant to the Group and effective from 1 January 2013. Such amendments have no significant impact to the consolidated financial statements of the Group.

The Group has early adopted Amendment to IAS 36, 'Impairment of assets' for the first time for the consolidated financial statements.

Amendment to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014. However the Group has decided to early adopt the amendment from 1 January 2013 and such adoption does not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(b) New standards, amendments to standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretation are not effective for the financial year beginning 1 January 2013, and have not been early adopted by the Group in preparing these consolidated financial statements.

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting. This amendment relates to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is yet to assess the full impact of Amendment to IAS 32 and intends to adopt this amendment no later than the accounting period beginning on or after 1 January 2014.
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement'—'Novation of derivatives'. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The Group is yet to assess the full impact of Amendment to IAS 39 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2014.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(b) New standards, amendments to standards and interpretation not yet adopted (Cont'd)

- Amendments to IFRS 10, 12 and IAS 27, 'Consolidation for investment entities'. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make. The Group is yet to assess the full impact of Amendments to IFRS 10, 12 and IAS 27 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2014.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is yet to assess the full impact of IFRIC 21 and intends to adopt this interpretation no later than the accounting period beginning on or after 1 January 2014.
- IASB's improvements to IFRS published in May and November 2012. In May and November 2012, IASB published its annual improvements projects, which made some amendments to IFRSs to clarify some accounting treatments/disclosure requirements under new/revised IFRSs and eliminate inconsistency. These improvements are not effective for financial year beginning 1 January 2013. Management does not expect these amendments to have a significant impact on the Group's consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective and would be expected to have a significant impact on the Group.

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Partial disposals

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value at the date when control or significant influence is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint ventures or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income in respect of that entity are reclassified to the income statement.

(b) Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 10(d)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition for the shares of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(b) Separate financial statements (Cont'd)

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in "Other gains/(losses), net" in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The change in accounting policy has been applied as from 1 January 2013.

The change in accounting policy has had no significant impact on the Group's consolidated financial statements.

The Group determines at each reporting date whether there is any objective evidence that investments in joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint ventures and its carrying value and recognises the amount in "Other gains/ (losses), net" in the consolidated income statement.

2.5 Investment in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture; is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when it becomes associates/joint ventures. A gain or loss on re-measurement of the previously held interest is taken to the consolidated income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognised in the consolidated income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Fixed assets

All fixed assets are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in "Other gains/(losses), net" in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 50 years.

Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.10 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the income statement on a straight-line basis over the remaining period of the lease or capitalised in construction in progress upon completion of construction.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Licensed online contents

The licensed online contents mainly include video contents. They are initially recognised and measured at cost. Licensed online contents are amortised using an accelerated method based on estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include licence, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally two to seven years) using the straight-line method reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.12 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 10(d)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award schemes", with a corresponding adjustment to "Share premium".

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise "Accounts receivable", "Deposits and other receivables", "Loans to associates", "Term deposits", "Restricted cash" and "Cash and cash equivalents" in the statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets (Cont'd)

(b) Recognition and measurement

Regular way purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale financial assets equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets (Cont'd)

- (b) Assets classified as available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement in “Other gains/(losses), net”.

2.18 Inventories

Inventories, mainly consisting of merchandise available for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

2.19 Accounts receivable

Accounts receivable are amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.20 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial maturities of three months or less.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.22 Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Put option liabilities

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially debited to equity at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as income or expenses in the income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liabilities are current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

2.24 Borrowings and long-term notes

Borrowings and long-term notes issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over their period using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Long-term notes payable are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model – Black-Scholes valuation model (the “BS Model”), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the “Investments in subsidiaries” in the Company's statement of financial position.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits (Cont'd)

(c) Share-based compensation benefits (Cont'd)

At each reporting period end, the Group and the Company revise their estimates of the number of options and awarded shares that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the consolidated income statement of the Group and in the “Investments in subsidiaries” of the Company, with a corresponding adjustment made to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.28 Revenue recognition

The Group principally derives revenues from provision of VAS, online advertising services and eCommerce transactions services in the PRC.

(a) VAS

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

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(a) VAS (Cont'd)

The VAS can be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platforms and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "Deferred revenue" in the statement of financial position (see Note 27). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase services, the revenue is recognised when the related services are rendered; (ii) when the payment unit is used to purchase virtual products/items in the Group's Internet platforms, the revenue is recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship.

Certain VAS are directly delivered to the Group's customers through the platforms of various subsidiaries of telecommunication operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Network Communications Group Company Limited ("China Unicom") and China Telecommunications Corporation ("China Telecom"). These operators collect the relevant service fees (the "Internet and Mobile Service Fees") on behalf of the Group and are entitled to certain percentages commission fee (defined as "Mobile and Telecom Charges"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to the Group. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

The Group also opens its Internet platforms to third-party game/application developers through entering into cooperation agreements with them. The games/applications designed, developed and hosted by these developers are made available to the users on the Group's Internet and mobile platforms. The developers are primarily responsible for the obligations under the games/applications to the end users. Under the terms of these cooperation agreements, the Group pays the developers a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in these games/applications. The Group recognises the related revenue on a net basis because it acts as an agent in the arrangements. The Group also defers the related revenue over an the estimated lifespan of the respective virtual products/items or over the expected user relationship periods as there is an implicit obligation of the Group to maintain and allow access of the users of the games/applications operated by the developers through its platforms.

Revenues derived from these arrangements are presented as revenue from VAS in the income statement.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(b) Online advertising

Online advertising revenues are mainly derived from display advertisements to instant messaging clients, and on portals, social networks and other platforms operated by the Group. It also includes income derived from performance based advertisements in which the revenue is linked to actual performance measurement. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For brand display advertising, advertising contracts with terms within one year are entered into with the advertisers and their advertising agencies and revenues are recognised ratably over the period in which the advertisements are displayed.

For performance based advertising, the Group introduces Internet users to its advertisers mainly through its performance based pay-for-click systems and charges advertisers on a per click basis when the users click on the displayed links. Revenue for performance based advertising is primarily recognised on a per click basis when the users click on the displayed links.

(c) eCommerce transactions

Revenues derived from eCommerce transactions business of the Group primarily arise from sales of merchandise through the Group's Internet platforms. The Group recognises revenues from merchandise sales and related costs on a gross basis when it acts as a principal. Following the guidance under IAS 18 'Revenue', whether the Group acts as a principal is based on a number of criteria, including whether it is a primary obligor, whether it is subject to inventory risk, whether it has latitude in establishing prices, whether it has latitude in selecting suppliers, in a transaction. When the Group is not a principal and is instead acting as an agent, revenues are recognised on a net basis which is based on a pre-determined percentage of the sales.

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

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.33 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

2.34 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in activities including payment of dividends, share repurchases and offshore investments and operations, the Group holds some monetary assets denominated in United States Dollar ("USD"), Hong Kong Dollar ("HKD"), Euro ("EUR"), Korea Won ("KRW") and New Taiwan Dollar ("TWD") subject to certain thresholds stated in its treasury mandate, and borrows some loans denominated in USD from time to time. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD, HKD, EUR, KRW and TWD as management considers that such risk could not be effectively reduced in a low-cost way.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

As at 31 December 2013, the Group and the Company's non-RMB monetary assets and liabilities are listed below:

Group	Denomination currency	As at 31 December	
		2013 RMB'Million	2012 RMB'Million
Monetary assets			
Non-current assets	USD	43	1
Current assets	USD	4,099	7,349
Current assets	HKD	556	285
Current assets	EUR	1,351	418
Current assets	KRW	916	470
Current assets	TWD	28	–
Monetary liabilities			
Non-current liabilities	USD	12,784	10,646
Current liabilities	USD	4,260	2,276
Current liabilities	HKD	67	23
Company			
	Denomination currency	As at 31 December	
		2013 RMB'Million	2012 RMB'Million
Monetary assets			
Current assets	USD	2,182	1,278
Current assets	HKD	2,752	3,805
Monetary liabilities			
Non-current liabilities	USD	9,141	7,517

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

During the year ended 31 December 2013, the Group reported exchange gains of approximately RMB310 million (2012: exchange losses of approximately RMB21 million) as a result of RMB appreciation. The gains/losses were recorded in "Finance costs, net" in the consolidated income statement for the year ended 31 December 2013.

At 31 December 2013, if USD, EUR, HKD, KRW and TWD had strengthened/weakened by 5% (2012: 5%) against RMB with all other variables held constant, the profit before income tax for the year would have been approximately RMB506 million lower/higher (2012: RMB221 million lower/higher), mainly as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in USD, EUR, HKD, KRW and TWD.

(ii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as available-for-sale financial assets. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management on a case by case basis.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2012: 5%) higher/lower as at 31 December 2013, the other comprehensive income would have been approximately RMB603 million (2012: RMB272 million) higher/lower.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk

The Group has interest-bearing assets including receivables in associates, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 11, 17 and 18.

The Group's interest rate risk arises from borrowings and long-term notes issued by the Group. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings and long-term notes issued at fixed rates expose the Group to fair value interest rate risk. There is no other written policy on managing the interest rate risk and management is to minimise its impact on the income statement.

Other financial assets and liabilities do not have material interest rate risk.

For the year ended 31 December 2013, if the average interest rate on variable interest-bearing borrowings had been 5% (2012: 5%) higher/lower, the Group's profit before income tax for the year would have been approximately RMB3 million (2012: RMB5 million) lower/higher.

The Company had no variable interest-bearing liabilities.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) placed with banks and financial institutions, other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

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For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

For accounts receivable, a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled-back; or if the telecommunications operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's VAS might be adversely affected in terms of recoverability of receivables.

To manage this risk, the Group maintains frequent communication with the telecommunication operators to ensure the co-operation is effective. In view of the history of co-operation with the telecommunication operators and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunications operators is low (see Note 15 for details).

For accounts receivable from advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments representing a certain percentage of the total service fees for each advertising service are required.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's and the Company's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Group	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2013					
Long-term notes payable	327	2,156	7,794	–	10,277
Long-term payables	–	1,197	308	206	1,711
Borrowings	2,689	2,217	1,171	–	6,077
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	13,651	–	–	–	13,651
Total	<u>16,667</u>	<u>5,570</u>	<u>9,273</u>	<u>206</u>	<u>31,716</u>
At 31 December 2012					
Long-term notes payable	302	302	4,502	3,835	8,941
Long-term payables	–	284	1,151	195	1,630
Borrowings	1,160	244	1,964	–	3,368
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	8,216	–	–	–	8,216
Total	<u>9,678</u>	<u>830</u>	<u>7,617</u>	<u>4,030</u>	<u>22,155</u>

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For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Company	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2013					
Long-term notes payable	327	2,156	7,794	–	10,277
Amounts due to subsidiaries	2,632	–	–	–	2,632
Other payables and accruals	58	–	–	–	58
Total	<u>3,017</u>	<u>2,156</u>	<u>7,794</u>	<u>–</u>	<u>12,967</u>
At 31 December 2012					
Long-term notes payable	302	302	4,502	3,835	8,941
Amounts due to subsidiaries	2,308	–	–	–	2,308
Other payables and accruals	44	–	–	–	44
Total	<u>2,654</u>	<u>302</u>	<u>4,502</u>	<u>3,835</u>	<u>11,293</u>

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidation statement of financial position, which is also equal to total assets less total liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management (Cont'd)

The gearing ratios as at 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Total liabilities	48,772	33,108
Total assets	<u>107,235</u>	<u>75,256</u>
Gearing ratio	<u>45%</u>	<u>44%</u>

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value as at 31 December 2013:

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
Assets				
Available-for-sale financial assets				
– Equity securities (Note 13)	<u>6,245</u>	<u>3,495</u>	<u>2,775</u>	<u>12,515</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's assets that are measured at fair value as at 31 December 2012:

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
Assets				
Available-for-sale financial assets				
– Equity securities	<u>4,083</u>	<u>–</u>	<u>1,550</u>	<u>5,633</u>

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2013:

	Available-for-sale financial assets RMB'Million
Opening balance	1,550
Additions	1,251
Impairment provision	<u>(26)</u>
Closing balance	<u><u>2,775</u></u>

The following table presents the changes in level 3 instruments for the year ended 31 December 2012:

	Available-for-sale financial assets RMB'Million
Opening balance	1,025
Additions	557
Transfer to interests in associates	(31)
Net gains recognised in other comprehensive income	54
Impairment provision	<u>(55)</u>
Closing balance	<u><u>1,550</u></u>

During the year ended 31 December 2013, total losses for the level 3 instruments held at the end of the reporting period were RMB26 million under "Other gains/(losses), net" (2012: total losses of RMB55 million).

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Valuation processes of the Group (Level 3)

The Group has a team that manages the valuation logistics of level 3 instruments for financial reporting purposes. The team manages the valuation logistics at least once every quarter, in line with the Group's quarterly reporting dates. On an annual basis, the team would also manage the valuation logistics, and use valuation techniques to determine the fair value of the Group's level 3 instruments by themselves.

The valuation of the level 3 instruments mainly included private funds and unlisted companies. As these investments are not traded in an active market, their fair value have been determined using discounted cash flow valuation techniques if applicable. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates and estimate of weighted average cost of capital (WACC), etc.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Recognition of revenues and accounts receivable related to VAS

For VAS delivered through the platforms of telecommunication operators, the Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by these operators to the Group on a monthly basis. For those Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(a) Recognition of revenues and accounts receivable related to VAS (Cont'd)

As at 31 December 2013, the balance of accounts receivable to be confirmed by China Mobile, China Unicom and China Telecom and their branches, subsidiaries and affiliates was estimated to be RMB564 million (2012: RMB706 million).

Were the actual outcome to differ by 5% (2012: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB28 million (2012: RMB35 million) if unfavourable; or
- increase the revenue and accounts receivable by RMB28 million (2012: RMB35 million) if favourable.

(b) Recognition of share-based compensation expenses

As mentioned in Note 2.26(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 21).

There was no share option granted to employees in 2013. The fair value of options granted for the year ended 31 December 2012 determined using the BS Model was approximately HKD15 million (equivalent to approximately RMB12 million).

In addition, the Group granted awarded shares to its employees at an aggregate fair value of HKD1,615 million (equivalent to approximately RMB1,287 million) during 2013 (2012: HKD1,862 million (equivalent to approximately RMB1,520 million)).

Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses (Cont'd)

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares who will stay within the Group at the end of the vesting periods (“Expected Retention Rate of Grantees”) in order to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2013, the Expected Retention Rate of Grantees was assessed to be 91% (2012: 91%).

If the Expected Retention Rate of Grantees had been increased/decreased by 5% (2012: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB78 million (2012: RMB64 million).

(c) The estimates of the lifespan of virtual products/items provided in the Group’s Internet and mobile platforms

As mentioned in Note 2.28(a), the end users purchase certain virtual products/items provided in the Group’s Internet and mobile platforms and the relevant revenue is recognised based on the lifespan of the virtual products/items or the expected user relationship periods. The Group uses the available information, including the historical user pattern and behavior and the stipulated period of validity of the relevant virtual products/items, to estimate the lifespan of these products/items. The Group has adopted a policy of assessing the estimated lives of the permanent life virtual products/items on a timely basis.

The Group will continue to monitor the average lifespan of the virtual products/items (provided and to be provided), which may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis than in prior periods.

Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) Income taxes

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

Were the actual final outcome (on the judgement areas) to differ by 5% from management's estimates, the Group would need to:

- Increase the income tax liabilities by RMB66 million (2012: RMB21 million) and the deferred tax liabilities by RMB72 million (2012: RMB66 million), if unfavourable; or
- Decrease the income tax liabilities by RMB66 million (2012: RMB21 million) and the deferred tax liabilities by RMB72 million (2012: RMB66 million), if favourable.

(e) Estimation of put option liabilities

The Group granted some put options to the non-controlling interest owners that they have the right to request the Group to repurchase their equity interests in certain non-wholly owned subsidiaries when certain conditions are met. The repurchase prices were determined by making reference to the revenue or profit to be generated by those subsidiaries in future periods. The Group will initially recognise a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows and the adjustments will be recognised as income or expenses in the income statement.

Notes to the Consolidated Financial Statements

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5 SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance and allocate resources, and determine the operating segments based on these reports.

In light of the increasing integration between the personal computer ("PC") and mobile Internet and the latest development of the Group's business, the Internet value-added services ("IVAS") and the mobile and telecommunications value-added services ("MVAS") segments have been combined into VAS segment and the revenue categories previously under IVAS and MVAS have been adjusted from 1 January 2013 onwards, both in the internal reports to the chief operating decision-makers and in the consolidated financial statements of the Group. The comparative figures have been restated to comply with the new presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

The Group has following reportable segments for the years ended 31 December 2013 and 2012:

- VAS;
- Online advertising;
- eCommerce transactions; and
- Others

Other segments of the Group mainly comprise of the provision of trademark licensing, software development services and software sales.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit/(losses) of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance costs, net and income tax expense are also not allocated to individual operating segment.

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5 SEGMENT INFORMATION (Cont'd)

There were no material inter-segment sales during the years ended 31 December 2013 and 2012. 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.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in this annual report. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2013 and 2012 is as follows:

	Year ended 31 December 2013				
		Online	eCommerce		
	VAS	advertising	transactions	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>44,985</u>	<u>5,034</u>	<u>9,796</u>	<u>622</u>	<u>60,437</u>
Gross profit	<u>29,601</u>	<u>2,257</u>	<u>557</u>	<u>244</u>	<u>32,659</u>
Depreciation	1,656	138	16	19	1,829
Amortisation	336	514	–	–	850
Share of profit/(losses) of associates	170	(27)	(53)	123	213
Share of losses of joint ventures	<u>(42)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(42)</u>

Notes to the Consolidated Financial Statements

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5 SEGMENT INFORMATION (Cont'd)

	Year ended 31 December 2012				Total RMB'Million
	VAS	Online	eCommerce	Others	
	RMB'Million (Restated)	advertising RMB'Million	transactions RMB'Million	RMB'Million	
Segment revenues	<u>35,718</u>	<u>3,382</u>	<u>4,428</u>	<u>366</u>	<u>43,894</u>
Gross profit	<u>23,654</u>	<u>1,649</u>	<u>236</u>	<u>148</u>	<u>25,687</u>
Depreciation	1,231	107	9	17	1,364
Amortisation	200	199	–	–	399
Share of (losses)/profit of associates	(85)	–	(33)	64	(54)
Share of losses of joint ventures	<u>(26)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(26)</u>

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. For the year ended 31 December 2013, the geographical information on the total revenues is as follows:

	2013 RMB'Million	2012 RMB'Million
Revenues		
– Mainland China	55,978	41,735
– Others	4,459	2,159
	<u>60,437</u>	<u>43,894</u>

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5 SEGMENT INFORMATION (Cont'd)

The Group also conduct operations in United States, Europe and other regions, and holds financial instruments as investments which are traded in other territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Operating assets		
– Mainland China	68,807	51,535
– Others	3,269	3,174
Investments		
– Mainland China	10,726	4,818
– Hong Kong	10,535	6,382
– United States	4,185	2,938
– Europe	6,235	3,974
– Others	3,478	2,435
	<u>107,235</u>	<u>75,256</u>

As at 31 December 2013, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China were RMB20,848 million (2012: RMB14,987 million). Those located in other areas were RMB7,032 million (2012: RMB6,066 million).

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the year ended 31 December 2013.

Turnover consists of revenues generated by the Group, which were RMB60,437 million and RMB43,894 million for the years ended 31 December 2013 and 2012, respectively.

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6 FIXED ASSETS

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2013						
Cost	2,358	8,227	414	32	586	11,617
Accumulated depreciation	(281)	(3,578)	(131)	(12)	(212)	(4,214)
Currency translation differences	-	(1)	1	-	-	-
Net book amount	<u>2,077</u>	<u>4,648</u>	<u>284</u>	<u>20</u>	<u>374</u>	<u>7,403</u>
Year ended 31 December 2013						
Opening net book amount	2,077	4,648	284	20	374	7,403
Business combinations	-	10	2	-	3	15
Other additions	442	3,095	140	16	286	3,979
Disposals	-	(168)	(6)	(1)	(2)	(177)
Depreciation	(116)	(2,128)	(86)	(6)	(148)	(2,484)
Currency translation differences	-	(42)	-	-	(1)	(43)
Closing net book amount	<u>2,403</u>	<u>5,415</u>	<u>334</u>	<u>29</u>	<u>512</u>	<u>8,693</u>
At 31 December 2013						
Cost	2,800	10,494	541	47	873	14,755
Accumulated depreciation	(397)	(5,036)	(208)	(18)	(360)	(6,019)
Currency translation differences	-	(43)	1	-	(1)	(43)
Net book amount	<u>2,403</u>	<u>5,415</u>	<u>334</u>	<u>29</u>	<u>512</u>	<u>8,693</u>

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For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

6 FIXED ASSETS (Cont'd)

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2012						
Cost	1,732	6,159	255	12	386	8,544
Accumulated depreciation	(185)	(2,289)	(71)	(6)	(108)	(2,659)
Currency translation differences	—	—	—	—	—	—
Net book amount	<u>1,547</u>	<u>3,870</u>	<u>184</u>	<u>6</u>	<u>278</u>	<u>5,885</u>
Year ended 31 December 2012						
Opening net book amount	1,547	3,870	184	6	278	5,885
Business combinations	—	1	19	—	3	23
Other additions	626	2,388	147	20	197	3,378
Disposals	—	—	(3)	—	—	(3)
Depreciation	(96)	(1,610)	(64)	(6)	(104)	(1,880)
Currency translation differences	—	(1)	1	—	—	—
Closing net book amount	<u>2,077</u>	<u>4,648</u>	<u>284</u>	<u>20</u>	<u>374</u>	<u>7,403</u>
At 31 December 2012						
Cost	2,358	8,227	414	32	586	11,617
Accumulated depreciation	(281)	(3,578)	(131)	(12)	(212)	(4,214)
Currency translation differences	—	(1)	1	—	—	—
Net book amount	<u>2,077</u>	<u>4,648</u>	<u>284</u>	<u>20</u>	<u>374</u>	<u>7,403</u>

For the year ended 31 December 2013, depreciation of RMB1,829 million (2012: RMB1,364 million), RMB42 million (2012: RMB21 million) and RMB613 million (2012: RMB495 million) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

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7 CONSTRUCTION IN PROGRESS

	2013	2012
	RMB'Million	RMB'Million
Opening net book amount	534	159
Additions	1,815	640
Transfer to fixed assets	(308)	(265)
	<u> </u>	<u> </u>
Closing net book amount	2,041	534
	<u> </u>	<u> </u>

8 LAND USE RIGHTS

	2013	2012
	RMB'Million	RMB'Million
Opening net book amount	794	231
Additions	93	571
Amortisation	(16)	(8)
	<u> </u>	<u> </u>
Closing net book amount	871	794
	<u> </u>	<u> </u>

The land use rights are all related to land in the PRC with remaining lease period of 43 to 49 years. For the year ended 31 December 2013, RMB16 million (2012: RMB8 million) of the amortisation was charged in general and administrative expenses.

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9 INTANGIBLE ASSETS

	Goodwill	Computer software and technology	Licences	Licensed online contents	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2013						
Cost	3,013	915	1,510	797	403	6,638
Accumulated amortisation	–	(436)	(887)	(265)	(243)	(1,831)
Currency translation differences	(84)	1	(3)	–	(2)	(88)
Net book amount	<u>2,929</u>	<u>480</u>	<u>620</u>	<u>532</u>	<u>158</u>	<u>4,719</u>
Year ended 31 December 2013						
Opening net book amount	2,929	480	620	532	158	4,719
Business combinations	87	2	–	–	–	89
Other additions	–	224	151	644	17	1,036
Disposal	(402)	(9)	(154)	–	–	(565)
Amortisation	–	(219)	(153)	(685)	(49)	(1,106)
Currency translation differences	(62)	(8)	–	–	–	(70)
Closing net book amount	<u>2,552</u>	<u>470</u>	<u>464</u>	<u>491</u>	<u>126</u>	<u>4,103</u>
At 31 December 2013						
Cost	2,698	1,125	1,386	1,441	420	7,070
Accumulated amortisation	–	(648)	(919)	(950)	(292)	(2,809)
Currency translation differences	(146)	(7)	(3)	–	(2)	(158)
Net book amount	<u>2,552</u>	<u>470</u>	<u>464</u>	<u>491</u>	<u>126</u>	<u>4,103</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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9 INTANGIBLE ASSETS (Cont'd)

	Goodwill	Computer software and technology	Licences	Licensed online contents	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
At 1 January 2012						
Cost	2,695	629	1,355	–	283	4,962
Accumulated amortisation	–	(260)	(645)	–	(193)	(1,098)
Currency translation differences	(79)	–	(3)	–	(2)	(84)
Net book amount	<u>2,616</u>	<u>369</u>	<u>707</u>	<u>–</u>	<u>88</u>	<u>3,780</u>
Year ended 31 December 2012						
Opening net book amount	2,616	369	707	–	88	3,780
Business combinations	318	122	55	–	116	611
Other additions	–	164	100	797	4	1,065
Amortisation	–	(176)	(242)	(265)	(50)	(733)
Currency translation differences	(5)	1	–	–	–	(4)
Closing net book amount	<u>2,929</u>	<u>480</u>	<u>620</u>	<u>532</u>	<u>158</u>	<u>4,719</u>
At 31 December 2012						
Cost	3,013	915	1,510	797	403	6,638
Accumulated amortisation	–	(436)	(887)	(265)	(243)	(1,831)
Currency translation differences	(84)	1	(3)	–	(2)	(88)
Net book amount	<u>2,929</u>	<u>480</u>	<u>620</u>	<u>532</u>	<u>158</u>	<u>4,719</u>

Amortisation of RMB256 million (2012: RMB334 million) and RMB850 million (2012: RMB399 million) were charged in general and administrative expenses and cost of revenues respectively for the year ended 31 December 2013.

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For the year ended 31 December 2013
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9 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of VAS.

The recoverable amount of a CGU is the higher of its value-in-use and fair value less costs to sell. The management calculates fair value less costs to sell based on ratios of EV(enterprise value)/EBITDA(earnings before interest, tax, depreciation and amortisation) of several public comparable companies multiplied by the EBITDA of the related CGU and a discount for the lack of marketability.

The key assumptions used for the calculations of fair value less costs to sell in 2013 and 2012 are as follows:

	2013	2012
EV/EBITDA	4.1-6.3x	6.0-8.0x
Discount for the lack of marketability	25%	25%

The public comparable companies are considered with factors such as industry similarity, company size, profitability and financial risk.

Based on the assessment made by management, no provision for impairment on goodwill was necessary as at 31 December 2013.

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

(a) Investments in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Investments in subsidiaries:		
– Investments in equity interests – at cost, unlisted	–	69
– Deemed investments arising from share-based compensation (Note (i))	3,648	2,600
– Advance to subsidiaries (Note (ii))	7,036	6,750
	<u>10,684</u>	<u>9,419</u>

The following is a list of principal subsidiaries of the Company as at 31 December 2013:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by non-controlling interests (%)	Principal activities
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB30,000,000	100% (Note (iii))	–	Provision of Internet and mobile and telecommunications value-added services, Internet advertisement services and eCommerce transactions business
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	–	Development of computer software and provision of information technology services
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	100% (Note (iii))	–	Provision of Internet advertisement service
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	–	Development of computer software and provision of information technology services

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by non-controlling interests (%)	Principal activities
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	–	Development of computer software and provision of information technology services
Nanjing Wang Dian Technology Limited ("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	100% (Note (iii))	–	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	100% (Note (iii))	–	Provision of mobile and telecommunications value-added services
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	100% (Note (iii))	–	Provision of mobile and telecommunications value-added services
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	–	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	–	Development of computer software and provision of Internet information services

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by non-controlling interests (%)	Principal activities
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD60,000,000	100%	–	Development of computer software and provision of information technology services
Tencent Technology (Wuhan) Company Limited ("Tencent Wuhan")	Established on 18 November 2011 in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	–	Development of computer software and provision of Internet information services
Riot Games, Inc. ("Riot Games")	Established in September 2006 in the United States, private limited liability company	USD43,068,238	88.5%	11.5%	Development and operation of online games

All subsidiaries undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

Note:

- (i) The amount represents share-based compensation expenses arising from grants of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries, which were deemed to be investment made by the Company into these subsidiaries.
- (ii) All these balances are unsecured and interest-free and their repayments are neither planned nor likely to occur in the foreseeable future.
- (iii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.
- (iv) The directors of the Company considered that the non-controlling interests of the subsidiaries are not significant to the Group, and the Group did not separately disclose relevant subsidiaries' summarised financial information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(b) Significant restrictions

Cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB44,818 million are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on payment of dividends, share repurchase and offshore investments, etc.

(c) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries as at 31 December 2013 represented current account balances maintained by the Company with certain subsidiaries. All balances are unsecured and interest-free and the balances are repayable on demand. As at 31 December 2013, the amounts due from subsidiaries were neither past due nor impaired.

(d) Consolidation of structured entities

As mentioned in Note 10(a)(iii) above, the Company has consolidated the operating entities within the Group without any legal interests. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 21(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

For the year ended 31 December 2013, the Company contributed approximately RMB278 million (2012: RMB121 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(e) Disposal of a subsidiary

In October 2012, the Group entered into an agreement with a third party, a company listed on the Shanghai Stock Exchange (the “Buyer”), to sell all its equity interests (65.8%) held in Beijing Manyougu Information Technology Limited Company (“Manyougu”) (“Manyougu Disposal”). Manyougu is principally engaged in game development in PRC and had been accounted for as a subsidiary of the Group until October 2013.

In October 2013, the majority equity interests of Manyougu held by the Group have been disposed of and Manyougu ceased to be accounted for as a subsidiary of the Group since October 2013.

The disposal gain recognised in “Other gains/(losses), net” in the consolidated income statement for Manyougu Disposal was RMB189 million.

11 INTERESTS IN ASSOCIATES

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Investments in associates (Note (a))		
– Listed shares	1,426	1,481
– Unlisted shares	9,441	4,829
	<u>10,867</u>	<u>6,310</u>
Investments in redeemable preference shares of associates (Note (b))	1,119	838
Loans to associates (Note (c))	184	162
	<u>12,170</u>	<u>7,310</u>

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11 INTERESTS IN ASSOCIATES (Cont'd)

Note:

(a) Investments in associates

	2013 RMB'Million	2012 RMB'Million
At beginning of the year	6,310	3,764
Additions (i), (ii) and (iii)	4,534	2,969
Share of profit/(losses) of associates	213	(54)
Share of other comprehensive income of associates	48	–
Disposal of associates	(152)	(98)
Impairment provision (iv)	(44)	(195)
Dividends received from associates	(42)	(33)
Decrease as a result of step-up business combinations	–	(43)
At end of the year	<u>10,867</u>	<u>6,310</u>

- (i) In June 2013, the Group acquired additional non-redeemable preference shares in Kingsoft Internet Security Software Holdings Limited (“KIS”), an existing associate of the Group which is principally engaged in development and sales of Internet security software and antivirus software, for a cash consideration of approximately USD47 million (equivalent to approximately RMB290 million), and increased the Group’s equity interest in KIS from approximately 10.0% to approximately 18.0%.
- (ii) In 2013, the Group subscribed for ordinary shares and preference shares in Sogou Inc. (“Sogou”) (“Sogou acquisition”), representing 40.9% of the share capital of Sogou and 24.8% of the voting interest in Sogou, for a total consideration comprising of search related businesses and certain other assets of the Group and a net cash consideration of approximately USD516 million (equivalent to approximately RMB3,179 million). Sogou is principally engaged in the provision of Internet search services, as well as in the development and operations of a suite of Internet applications in the PRC, including Sogou Pinyin, Sogou Browser and Sogou Web Directory. Since the Group has representatives in Sogou’s board of directors, Sogou is accounted for as an associate of the Group.
- (iii) In addition to the above, the Group acquired some other associates or made additional investments in existing associates for an aggregate consideration of RMB702 million during the year ended 31 December 2013. They are principally engaged in provision of online community services, online game development and other Internet-related businesses.
- (iv) During the year ended 31 December 2013, the Group made impairment provision of RMB44 million (2012: RMB195 million) for investments in associates based on the assessment with reference to business performance and recoverable value of associates.

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11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of the associates which are listed companies, are shown in aggregate as follows:

	Assets	Liabilities	Revenues	Profits from	Other	Total	Fair value
	RMB'Million	RMB'Million	RMB'Million	continuing	comprehensive	comprehensive	of listed
				operation	income	income	companies as
				RMB'Million	RMB'Million	RMB'Million	at 31 December
							2013
							RMB'Million
2013							
Listed companies	<u>1,105</u>	<u>322</u>	<u>431</u>	<u>63</u>	<u>(1)</u>	<u>62</u>	<u>3,514</u>
Non-listed companies	<u>10,774</u>	<u>690</u>	<u>1,905</u>	<u>150</u>	<u>49</u>	<u>199</u>	
	<u>11,879</u>	<u>1,012</u>	<u>2,336</u>	<u>213</u>	<u>48</u>	<u>261</u>	
2012							
				Profits/(losses)			Fair value
				from	Other	Total	of listed
				continuing	comprehensive	comprehensive	companies as
				operation	income	income	at 31 December
				RMB'Million	RMB'Million	RMB'Million	2012
							RMB'Million
Listed companies	<u>1,743</u>	<u>262</u>	<u>411</u>	<u>34</u>	<u>–</u>	<u>34</u>	<u>1,451</u>
Non-listed companies	<u>5,274</u>	<u>445</u>	<u>1,191</u>	<u>(88)</u>	<u>–</u>	<u>(88)</u>	
	<u>7,017</u>	<u>707</u>	<u>1,602</u>	<u>(54)</u>	<u>–</u>	<u>(54)</u>	

The directors are of the view that there was no associate which is material to the Group, the Group did not separately disclose relevant associates' summarised financial information.

Management has assessed the level of influence that the Group has on certain associates and determined that it has significant influence even though the shareholding is below 20% because of the board representation. Consequently, these investments have been classified as associates.

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11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(b) Investments in redeemable preference shares of associates

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

During the year ended 31 December 2013, the Group also made impairment provision of approximately RMB17 million (2012: RMB449 million) for the investments in redeemable preference shares of certain associates based on the assessment made with reference to the business performance and recoverable values of the underlying associates.

(c) Loans to associates

As at 31 December 2013, the carrying amount of the loans to associates of the Group amounted to RMB184 million (2012: RMB162 million). The aggregate principal amount of the loans to associates is RMB179 million (2012: RMB160 million), which are required to be repaid in 2 years. These loans bear interest rates of 4.0% to 6.0% per annum or are interest-free.

(d) Transactions with associates

During the years ended 31 December 2013 and 2012, the Group entered into cooperation agreements with certain associates, pursuant to which the associates operate their games/applications on the Group's Internet platforms, which are available to the users of the Group. The Group pays the associates a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in their games/applications. In the whole arrangement, the Group acts as an agent and recognises the related revenue on a net basis. In 2013 and 2012, the revenue recorded by the Group from the above cooperation with associates was not material.

As at 31 December 2013 and 2012, the Group was entitled to certain call options and conversion options associated with its interests in associates. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

There are no contingent liabilities relating to the Group's interest in the associates.

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12 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'Million	Available-for- sale financial assets RMB'Million	Total RMB'Million
Assets			
At 31 December 2013			
Interests in associates (Note 11)	1,303	–	1,303
Available-for-sale financial assets (Note 13)	–	12,515	12,515
Accounts receivable (Note 15)	2,955	–	2,955
Deposits and other receivables	2,880	–	2,880
Term deposits (Note 17)	31,043	–	31,043
Restricted cash	4,131	–	4,131
Cash and cash equivalents (Note 18)	20,228	–	20,228
	<u>62,540</u>	<u>12,515</u>	<u>75,055</u>
Total	<u>62,540</u>	<u>12,515</u>	<u>75,055</u>
At 31 December 2012			
Interests in associates	1,000	–	1,000
Available-for-sale financial assets	–	5,633	5,633
Accounts receivable	2,354	–	2,354
Deposits and other receivables	1,785	–	1,785
Term deposits	24,698	–	24,698
Restricted cash	2,520	–	2,520
Cash and cash equivalents	13,383	–	13,383
	<u>45,740</u>	<u>5,633</u>	<u>51,373</u>
Total	<u>45,740</u>	<u>5,633</u>	<u>51,373</u>

Notes to the Consolidated Financial Statements

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12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Financial liabilities at amortised cost RMB'Million
Liabilities	
At 31 December 2013	
Long-term notes payable (Note 26)	9,141
Long-term payables (Note 24)	1,600
Accounts payable (Note 22)	6,680
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	6,971
Borrowings (Note 25)	5,912
Total	<u>30,304</u>
At 31 December 2012	
Long-term notes payable	7,517
Long-term payables	1,508
Accounts payable	4,212
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	4,004
Borrowings	3,183
Total	<u>20,424</u>

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12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company

	Loans and receivables RMB'Million
Assets	
At 31 December 2013	
Amounts due from subsidiaries (Note 10(c))	4,934
Deposits and other receivables	111
Cash and cash equivalents (Note 18)	<u>346</u>
Total	<u><u>5,391</u></u>
At 31 December 2012	
Amounts due from subsidiaries	4,906
Deposits and other receivables	24
Cash and cash equivalents	<u>166</u>
Total	<u><u>5,096</u></u>
Financial liabilities at amortised cost	
RMB'Million	
Liabilities	
At 31 December 2013	
Long-term notes payable (Note 26)	9,141
Amounts due to subsidiaries (Note 10(c))	2,632
Other payables and accruals	<u>58</u>
Total	<u><u>11,831</u></u>
At 31 December 2012	
Long-term notes payable	7,517
Amounts due to subsidiaries	2,308
Other payables and accruals	<u>44</u>
Total	<u><u>9,869</u></u>

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13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
At beginning of the year	5,633	4,344
Additions (Note (a), (b) and (c))	3,890	556
Transfer to interests in associates	—	(31)
Gains from changes in fair value	3,018	819
Impairment provision	(26)	(55)
	<u>12,515</u>	<u>5,633</u>
At end of the year, all non-current	<u>12,515</u>	<u>5,633</u>

Available-for-sale financial assets include the following:

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Listed equity interests:		
7.76% (2012: 7.76%) equity interest in Mail.ru Group Limited	4,413	3,519
4.60% (2012: 4.60%) equity interest in Huayi Bros. Media Group	1,547	396
3.98% (2012: 3.98%) equity interest in Hangzhou Shunwang Technology Co., Ltd.	270	136
4.92% (2012: 5.01%) equity interest in Media Asia Group Holdings Limited	15	32
	<u>6,245</u>	<u>4,083</u>
Market value of listed securities	6,245	4,083
Unlisted equity interests	6,270	1,550
	<u>12,515</u>	<u>5,633</u>

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13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Cont'd)

Note:

- (a) In June 2013, the Group acquired certain equity interests in a company incorporated in US, which is mainly engaged in the provision of eCommerce services in US and Europe, for a consideration of USD50 million (equivalent to approximately RMB309 million).
- (b) In October 2013, the Group, as a limited partner, subscribed for certain partnership interest of a newly established partnership at a total cash consideration of approximately USD429 million (equivalent to approximately RMB2,638 million). The partnership holds certain equity interests in Activision Blizzard Inc., an US listed company, which is mainly engaged in interactive entertainment business. The initial indirect interest in Activision Blizzard Inc. is around 6.0%.
- (c) In addition to the above, the Group also acquired some other available-for-sale financial assets or made additional investments in existing available-for-sale financial assets for an aggregate consideration of RMB943 million during the year ended 31 December 2013. They are principally engaged in the provision of online community services, online games development and other Internet-related businesses.

Available-for-sale financial assets are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
USD	9,668	4,545
HKD	15	32
RMB	2,832	1,056
Total	<u>12,515</u>	<u>5,633</u>

As at 31 December 2013, there were certain call or conversion options embedded in available-for-sale financial assets invested by the Group. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

14 INVENTORIES

The inventories are mainly merchandise purchased for the Group's eCommerce transactions business.

The cost of inventories is recognised as expense and included in "cost of merchandise sold" amounted to RMB8,991 million for the year ended 31 December 2013 (2012: RMB4,067 million).

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15 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
0 - 30 days	1,537	1,407
31 - 60 days	827	553
61 - 90 days	369	257
Over 90 days	222	137
	<u>2,955</u>	<u>2,354</u>

Accounts receivable were mainly denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Telecommunications operators	1,031	1,237
Online advertising customers	1,296	811
Others	628	306
	<u>2,955</u>	<u>2,354</u>

While there are no contractual requirements for the telecommunication operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

As at 31 December 2013, insignificant amounts of accounts receivable were past due. No impairment provision was considered necessary after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 31 December 2013.

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16 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Included in non-current assets:		
Prepayment for licensed contents	840	575
Running royalty fees for online games	37	97
Prepayment for purchase of building	–	244
Loan to joint ventures	–	50
Others	419	270
	<u>1,296</u>	<u>1,236</u>
Included in current assets:		
Running royalty fees for online games	1,454	1,640
Interest receivables	1,131	353
Prepaid expenses	1,031	503
Refundable value-added tax	220	589
Rental deposits and other deposits	138	120
Others	1,391	673
	<u>5,365</u>	<u>3,878</u>
	<u><u>6,661</u></u>	<u><u>5,114</u></u>

Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients. The directors of the Company considered that the carrying amounts of the prepayments, deposits and other assets approximated to their fair values as at 31 December 2013.

Notes to the Consolidated Financial Statements

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17 TERM DEPOSITS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2013 was 3.97% (2012: 3.87%).

An analysis of the Group's term deposits denominated in RMB, USD and KRW with initial term of over three months as at 31 December 2013 are listed as below:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	11,420	10,891
USD term deposits	—	1
	<u>11,420</u>	<u>10,892</u>
Included in current assets:		
RMB term deposits	19,024	10,448
USD term deposits	597	3,358
KRW term deposits	2	—
	<u>19,623</u>	<u>13,806</u>
	<u>31,043</u>	<u>24,698</u>

Term deposits with initial term of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial term of over three months approximated their fair value as at 31 December 2013.

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18 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Bank balances and cash	11,093	8,460	346	166
Term deposits and highly liquid investments with initial term within three months	9,135	4,923	–	–
	20,228	13,383	346	166
Maximum exposure to credit risk	20,227	13,383	346	166

The effective interest rates of the term deposits of the Group with initial term within three months for the year ended 31 December 2013 and 2012 were 2.39% and 2.21%, respectively.

Approximately RMB10,303 million (2012: RMB8,687 million) of the total balance of the Group was denominated in RMB and it was deposited with banks in Mainland China. The Company had no material cash balance denominated in RMB.

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

The total authorised share capital of the Company comprises 10,000,000,000 ordinary shares (2012: 10,000,000,000 shares) with par value of HKD0.0001 per share (2012: HKD0.0001 per share).

As at 31 December 2013, the total number of issued ordinary shares of the Company was 1,862,110,840 shares (2012: 1,853,333,230 shares) which included 19,501,655 shares (2012: 19,349,672 shares) held under the share award schemes (Note 21(b)). They were all fully paid up.

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19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (Cont'd)

	Number of ordinary shares	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2013	1,853,333,230	-	2,880	(667)	2,213
Employee share option schemes:					
– value of employee services	-	-	58	-	58
– number of shares issued and proceeds received (Note (a))	11,361,870	-	308	-	308
Employee share award schemes:					
– value of employee services	-	-	999	-	999
– shares purchased for share award schemes (Note (b))	-	-	-	(278)	(278)
– shares allotted for share award schemes (Note (c))	4,058,740	-	-	-	-
– shares vested from share award schemes and transferred to the grantees (Note (d))	-	-	(74)	74	-
Repurchase and cancellation of shares	(6,643,000)	-	(1,325)	-	(1,325)
At 31 December 2013	1,862,110,840	-	2,846	(871)	1,975

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19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (Cont'd)

	Number of ordinary shares	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2012	1,839,814,008	–	1,951	(607)	1,344
Employee share option schemes:					
– value of employee services	–	–	95	–	95
– number of shares issued and proceeds received	9,295,222	–	238	–	238
Employee share award schemes:					
– value of employee services	–	–	677	–	677
– shares purchased for share award schemes	–	–	–	(121)	(121)
– shares allotted for share award schemes	4,378,400	–	–	–	–
– shares vested from share award schemes and transferred to the grantees	–	–	(61)	61	–
Repurchase and cancellation of shares	(154,400)	–	(20)	–	(20)
At 31 December 2012	<u>1,853,333,230</u>	<u>–</u>	<u>2,880</u>	<u>(667)</u>	<u>2,213</u>

Note:

- During the year ended 31 December 2013, 11,361,870 (2012: 9,295,222) Post-IPO options with exercise prices ranging from HKD3.665 to HKD194.40 (2012: HKD3.665 to HKD189.00) were exercised.
- During the year ended 31 December 2013, the Share Scheme Trust acquired and withheld 999,306 ordinary shares (2012: 651,901 shares) of the Company for a total consideration of HKD348 million (equivalent to approximately RMB278 million) (2012: HKD149 million (equivalent to approximately RMB121 million), which had been deducted from shareholders' equity.
- During the year ended 31 December 2013, the Company allotted 4,058,740 ordinary shares (2012: 4,378,400 shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the share award scheme.
- During the year ended 31 December 2013, the Share Scheme Trust transferred 4,906,063 ordinary shares of the Company (2012: 3,490,468 shares) to the share awardees upon vesting of the awarded shares.
- As at 31 December 2013, included in "Shares held for share award schemes", 1,435,659 ordinary shares (2012: 405,230 shares) held by the Share Scheme Trust had not yet been granted to the participants.

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20 OTHER RESERVES

	Capital reserve (Note (a)) RMB'Million	Available-for- sale financial assets RMB'Million	Interests in associates RMB'Million	Currency translation differences RMB'Million	Statutory surplus reserve fund (Note (b)) RMB'Million	Reserve fund (Note (b)) RMB'Million	Share-based compensation reserve (Note (c)) RMB'Million	Total RMB'Million
Balance at 1 January 2013	(1,370)	1,411	-	(20)	571	12	212	816
Value of employee services:								
– Employee share option schemes	-	-	-	-	-	-	62	62
– Employee share award schemes	-	-	-	-	-	-	36	36
Acquisition of additional equity interests in non-wholly owned subsidiaries	(72)	-	-	-	-	-	-	(72)
Profit appropriations to statutory reserves	-	-	-	-	79	-	-	79
Net gains from changes in fair value of available-for-sale financial assets	-	2,825	-	-	-	-	-	2,825
Share of other comprehensive income of associates	-	-	48	-	-	-	-	48
Currency translation differences	-	-	-	(48)	-	-	-	(48)
Balance at 31 December 2013	(1,442)	4,236	48	(68)	650	12	310	3,746

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20 OTHER RESERVES (Cont'd)

	Capital reserve	Available-for- sale financial assets	Currency translation differences	Statutory surplus reserve fund	Reserve fund	Share-based compensation reserve	Total
	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million	RMB' Million
Balance at 1 January 2012	(773)	587	(31)	506	12	108	409
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	(357)	–	–	–	–	–	(357)
Value of employee services:							
– Employee share option schemes	–	–	–	–	–	59	59
– Employee share award schemes	–	–	–	–	–	45	45
Acquisition of additional equity interests in non-wholly owned subsidiaries	(240)	–	–	–	–	–	(240)
Profit appropriations to statutory reserves	–	–	–	65	–	–	65
Net gains from changes in fair value of available-for-sale financial assets	–	824	–	–	–	–	824
Currency translation differences	–	–	11	–	–	–	11
Balance at 31 December 2012	<u>(1,370)</u>	<u>1,411</u>	<u>(20)</u>	<u>571</u>	<u>12</u>	<u>212</u>	<u>816</u>

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20 OTHER RESERVES (Cont'd)

Note:

- (a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.
- (b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

- (c) This share-based compensation reserve arises from share option schemes and restricted share award schemes adopted by non-wholly owned subsidiaries (Note 21(d)).

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21 SHARE-BASED PAYMENTS

(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 Post-IPO Option Scheme III, under which the directors 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 Pre-IPO Option Scheme expired on 31 December 2011. Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Option Scheme II.

In respect of Post-IPO Option Scheme II and Post-IPO Option Scheme III, the exercise price must be at least the higher of: (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (3) the nominal value of the Company's shares. 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.

(i) Movements in share options

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

	Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2013	HKD11.13	4,596,489	HKD65.50	20,633,097	HKD158.50	1,000,000	26,229,586
Exercised	HKD11.10	(3,777,146)	HKD45.33	(7,584,724)	-	-	(11,361,870)
Lapsed	HKD5.51	(77)	HKD125.67	(400,368)	-	-	(400,445)
At 31 December 2013	HKD11.25	819,266	HKD75.69	12,648,005	HKD158.50	1,000,000	14,467,271
Exercisable as at 31 December 2013	HKD11.25	819,266	HKD53.99	7,896,272	-	-	8,715,538
At 1 January 2012	HKD12.39	8,761,937	HKD59.97	26,156,088	HKD158.50	1,000,000	35,918,025
Granted	-	-	HKD248.80	165,800	-	-	165,800
Exercised	HKD13.81	(4,090,290)	HKD45.49	(5,204,932)	-	-	(9,295,222)
Lapsed	HKD11.54	(75,158)	HKD44.68	(483,859)	-	-	(559,017)
At 31 December 2012	HKD11.13	4,596,489	HKD65.50	20,633,097	HKD158.50	1,000,000	26,229,586
Exercisable as at 31 December 2012	HKD11.13	4,596,489	HKD45.03	9,931,574	-	-	14,528,063

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21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(i) Movements in share options (Cont'd)

During the years ended 31 December 2013 and 2012, no share option was granted to any directors of the Company.

As a result of the options exercised during the year ended 31 December 2013, 11,361,870 ordinary shares (2012: 9,295,222 ordinary shares) were issued by the Company (Note 19). The weighted average price of the shares at the time these options were exercised was HKD348.05 (equivalent to approximately RMB276.79) per share (2012: HKD231.04 per share (equivalent to approximately RMB187.98 per share)).

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2013 and 31 December 2012 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		31 December 2013	31 December 2012
10 years commencing from the adoption date of 24 March 2004 (Post-IPO Option Scheme I)	HKD3.665-HKD8.35	492,741	2,362,976
	HKD11.55-HKD25.26	326,525	2,233,513
		819,266	4,596,489
7 years commencing from the date of grant of options (Post-IPO Option Scheme II)	HKD31.75-HKD43.50	4,846,040	9,718,200
	HKD45.50-HKD90.30	4,586,510	7,125,022
	HKD128.40-HKD248.80	3,215,455	3,789,875
	12,648,005	20,633,097	
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD158.50	1,000,000	1,000,000
		14,467,271	26,229,586

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21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Fair value of options

The directors of the Company have used the BS Model to determine the fair value of the options granted, which is to be expensed over the vesting period. There is no share option granted to employees in 2013. The weighted average fair value of options granted during the year ended 31 December 2012 was HKD87.89 per option (equivalent to approximately RMB71.78 per option).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate (2012: 0.40%), dividend yield (2012: 0.36%) and expected volatility (Note) (2012: 48.1%), is required to be made by the directors in applying the BS Model.

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

The outstanding share options as of 31 December 2013 were divided into two to five tranches on an equal basis as at their grant date. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

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21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes

The Company has adopted two share award schemes (the “Share Award Schemes”), both of which are managed by an independent trustee appointed by the Group (the “Trustee”) as of 31 December 2013. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the years ended 31 December 2013 and 2012 are as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2013	405,230	18,944,442	19,349,672
Purchased and withheld (Note 19)	999,306	–	999,306
Allotted	4,058,740	–	4,058,740
Granted (Note)	(5,188,175)	5,188,175	–
Lapsed	1,160,558	(1,160,558)	–
Vested and transferred	–	(4,906,063)	(4,906,063)
	<u>1,435,659</u>	<u>18,065,996</u>	<u>19,501,655</u>
At 31 December 2013	1,435,659	18,065,996	19,501,655
Vested but not transferred as at 31 December 2013			<u>–</u>
At 1 January 2012	1,970,840	15,838,999	17,809,839
Purchased and withheld	651,901	–	651,901
Allotted	4,378,400	–	4,378,400
Granted	(7,569,380)	7,569,380	–
Lapsed	973,469	(973,469)	–
Vested and transferred	–	(3,490,468)	(3,490,468)
	<u>405,230</u>	<u>18,944,442</u>	<u>19,349,672</u>
At 31 December 2012	405,230	18,944,442	19,349,672
Vested but not transferred as at 31 December 2012			<u>5</u>

Note:

During the years ended 31 December 2013 and 2012, no awarded share was granted to any director of the Company.

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21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2013 was HKD311.24 per share (equivalent to approximately RMB248.05 per share) (2012: HKD245.95 per share (equivalent to approximately RMB200.81 per share)).

The outstanding awarded shares as of 31 December 2013 were divided into two to six tranches on an equal basis as at their grant date. The first tranche can be exercised immediately or after a specified period ranging from three months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

In 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to a shareholders' resolution passed at the 2011 annual general meeting of the Company held on 11 May 2011. The Board may, at its absolute discretion, select any employee of the Group to participate in the EIS by subscribing for the partnership interest at cash consideration. The total cash contribution by selected employees is limited to approximately RMB80 million. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS, ranging from 4 to 7 years. A wholly-owned subsidiary of the Company which acts as a general partner of the EIS manages and in essence, controls it. The EIS is therefore consolidated by the Company. In addition, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expenses of which for the years ended 31 December 2013 and 2012 were considered not significant to the Group by the directors of the Company.

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21 SHARE-BASED PAYMENTS (Cont'd)

(d) Share options and restricted share award schemes adopted by non-wholly owned subsidiaries

Certain non-wholly owned subsidiaries of the Group operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches. Some non-wholly owned subsidiaries' participants have the right to request the Group to repurchase their vested equity interest in those non-wholly owned subsidiaries ("Repurchase Transaction"). For certain of those participants, the Group have discretion to settle the Repurchase Transaction by using either equity instruments of the Group or by cash. For the Repurchase Transaction which the Group having settlement options, there are certain portions that the directors of the Company are currently of the view that they would be settled by equity instruments of the Group and they are accounted for using the equity-settled share-based payment method. The remaining portion is accounted for as cash-settled share-based payments.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 31 December 2013, the Expected Retention Rate was assessed to be 91% (31 December 2012: 91%).

22 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2013	2012
	RMB' Million	RMB' Million
0 - 30 days	4,063	3,574
31 - 60 days	1,147	430
61 - 90 days	366	176
Over 90 days	1,104	32
	<u>6,680</u>	<u>4,212</u>

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23 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Staff costs and welfare accruals	3,085	2,222
Marketing and administrative expense accruals	1,440	873
Prepayments received from customers and eCommerce business (Note)	4,045	2,487
Running royalty fee for online games	30	44
Purchase consideration payables for business combinations	11	40
Others	1,635	635
	<u>10,246</u>	<u>6,301</u>

Note:

Prepayments received from eCommerce business were recorded as restricted cash.

24 LONG-TERM PAYABLES

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	1,297	1,138
Purchase consideration payables for business combinations	99	104
Running royalty fee for online games	37	97
Others	167	169
	<u>1,600</u>	<u>1,508</u>

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25 BORROWINGS

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	3,323	2,106
Included in current liabilities:		
RMB bank borrowings		
– Secured	–	15
– Unsecured	150	25
USD bank borrowings		
– Unsecured (Note (b))	2,134	943
Current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	305	94
	2,589	1,077
	5,912	3,183

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD595 million. Applicable interest rates are at LIBOR plus 1.05% to 1.97% per annum.

The unsecured long-term bank borrowings were repayable as follows:

	As at
	31 December
	2013
	RMB'Million
Within 1 year	305
Between 1 and 2 years	2,164
Between 2 and 5 years	1,159
	3,628

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25 BORROWINGS (Cont'd)

Note: (Cont'd)

- (b) The aggregate principal amount of short-term USD bank borrowings was USD350 million. Applicable interest rates are at LIBOR plus 1.20% to 1.25% per annum.

The fair value of the borrowings approximated to their carrying amounts as at 31 December 2013.

26 LONG-TERM NOTES PAYABLE

On 12 December 2011, the Company issued long-term notes (the "2011 Notes") with an aggregate principal amount of USD600 million for general corporate purposes. The 2011 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2011 Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the "2012 Notes") with an aggregate principal amount of USD600 million for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2012 Notes are listed on the Stock Exchange and will mature on 5 March 2018.

On 10 September 2013, the Company issued another long-term notes (the "2013 Notes") with an aggregate principal amount of USD300 million for general corporate purposes. The 2013 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2013 Notes are non-publicly issued and will mature on 10 September 2015. The issue price of the 2013 Notes is 99.766% of the aggregate principal amount. The net proceeds from the issuance of the 2013 Notes, after deduction of underwriting fees, discounts, commissions and other expenses payable in connection with the issuance, amounted to approximately USD299 million (equivalent to approximately RMB1,847 million).

The fair value of the long-term notes payable at 31 December 2013 amounted to RMB9,476 million (31 December 2012: RMB7,950 million). The respective fair values are assessed based on the active market price of these notes on the balance sheet date or by making reference to similar instruments traded in the observable market.

27 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain VAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2013. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values.

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28 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2013 and 2012.

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	348	122
– to be recovered within 12 months	83	47
	<u>431</u>	<u>169</u>
Deferred income tax liabilities:		
– to be recovered after more than 12 months	(824)	(1,044)
– to be recovered within 12 months	(617)	(268)
	<u>(1,441)</u>	<u>(1,312)</u>

The movements of the deferred income tax assets/liabilities account were as follows:

	2013	2012
	RMB'Million	RMB'Million
At beginning of the year	(1,143)	(742)
Charge to income statement relating to origination and reversal of temporary differences (Note 37)	(111)	(519)
Withholding tax paid in related to the remittance of dividends	412	187
(Charge to)/credit to other comprehensive income	(193)	5
Disposal of a subsidiary	23	–
Business combinations	–	(72)
Currency translation differences	2	(2)
At end of the year	<u>(1,010)</u>	<u>(1,143)</u>

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28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets were as follows:

	Deferred tax assets arising from intra-group software and technology sales RMB'Million	Deferred tax assets arising from change in fair value of available-for- sale financial assets RMB'Million	Deferred tax assets arising from tax losses RMB'Million	Deferred tax assets arising from accelerated amortisation RMB'Million	Total RMB'Million
At 1 January 2013	162	7	–	–	169
Credit to income statement relating to reversal of temporary differences	9	–	213	47	269
Charge to other comprehensive income	–	(7)	–	–	(7)
At 31 December 2013	<u>171</u>	<u>–</u>	<u>213</u>	<u>47</u>	<u>431</u>
At 1 January 2012	197	1	–	–	198
Charge to income statement relating to reversal of temporary differences	(35)	–	–	–	(35)
Credit to other comprehensive income	–	6	–	–	6
At 31 December 2012	<u>162</u>	<u>7</u>	<u>–</u>	<u>–</u>	<u>169</u>

Note:

The deferred tax assets recognised are mainly related to the temporary differences arising from certain intra-group software and technology transfer transactions. The credit to income statement represents tax impacts of originating temporary differences arising from these software and technology transfer, while the charge to income statement represents tax impacts of the reversal of the temporary differences as a result of the amortisation of the costs of these software and technology.

As at 31 December 2013, the Group did not recognise deferred income tax assets of RMB443 million (2012: RMB251 million) in respect of cumulative tax losses amounting to RMB2,057 million (2012: RMB910 million). These tax losses will expire from 2014 to 2018.

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28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax liabilities were as follows:

	Intangible assets acquired in business combinations at fair value RMB'Million	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries RMB'Million (Note)	Deferred tax liabilities arising from change in fair value of available-for- sale financial assets RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2013	(118)	(1,193)	(1)	–	(1,312)
Credit /(charge) to income statement relating to origination and reversal of temporary differences	24	(347)	–	(57)	(380)
Disposal of a subsidiary	23	–	–	–	23
Withholding tax paid in related to the remittance of dividends	–	412	–	–	412
Charge to other comprehensive income	–	–	(186)	–	(186)
Currency translation differences	2	–	–	–	2
At 31 December 2013	(69)	(1,128)	(187)	(57)	(1,441)
At 1 January 2012	(112)	(828)	–	–	(940)
Business combinations	(72)	–	–	–	(72)
Credit /(charge) to income statement relating to origination of temporary differences	68	(552)	–	–	(484)
Withholding tax paid in related to the remittance of dividends	–	187	–	–	187
Charge to other comprehensive income	–	–	(1)	–	(1)
Currency translation differences	(2)	–	–	–	(2)
At 31 December 2012	(118)	(1,193)	(1)	–	(1,312)

Note:

According to applicable PRC tax regulations, withholding tax will be levied on the dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 (Note 37 (a)(vi)).

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28 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2013, the Group recognised the relevant deferred tax liabilities of RMB1,128 million (2012: RMB1,193 million) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB15,818 million (2012: RMB5,726 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

29 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (Note 2.28(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred and cost of merchandise sold in deriving the revenues.

30 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current term deposits, restricted cash and non-current term deposits.

31 OTHER GAINS/(LOSSES), NET

	2013	2012
	RMB'Million	RMB'Million
Impairment provision for investees	(87)	(699)
Dividend income	509	407
Gains on disposal of investees	267	7
Subsidies and tax rebates	368	226
Losses from derivative financial instruments	–	(21)
Donation to Tencent Charity Funds	(124)	(120)
Others	(29)	(84)
	904	(284)

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32 EXPENSES BY NATURE

	2013	2012
	RMB'Million	RMB'Million
Employee benefits expenses (Note (a))/(Note 33)	10,364	7,724
Content costs and agency fees (Note (b))	8,523	6,587
Cost of merchandise sold	8,991	4,067
Mobile and telecommunications charges and bandwidth and server custody fees	4,207	3,409
Promotion and advertising expenses	3,894	1,998
Depreciation of fixed assets (Note (a))/(Note 6)	2,484	1,880
Amortisation of intangible assets (Note (b))/(Note 9)	1,106	733
Operating lease rentals in respect of office buildings	867	615
Travelling and entertainment expenses	422	316
Auditor's remuneration		
– Audit services	18	15
– Non-audit services	11	7

Note:

- (a) Research and development expenses for the year ended 31 December 2013 were RMB5,095 million (2012: RMB4,176 million) which included employee benefits expenses of RMB4,000 million (2012: RMB3,358 million) and depreciation of fixed assets of RMB533 million (2012: RMB450 million). No development expenses had been capitalised for the years ended 31 December 2013 and 2012.
- (b) Amortisation expense of licenses and licensed online contents were included in amortisation of intangible assets.

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33 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2013	2012
	RMB'Million	RMB'Million
Wages, salaries and bonuses	6,955	5,577
Welfare, medical and other expenses (Note)	848	504
Share-based compensation expenses	1,786	1,013
Contributions to pension plans (Note)	740	593
Training expenses	35	37
	<u>10,364</u>	<u>7,724</u>

Note:

All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contribution to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

	Percentage
Pension insurance	10 - 22%
Medical insurance	6 - 12%
Unemployment insurance	0 - 2%
Housing fund	10 - 12%

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors and the chief executive officer ("CEO") of the Company for the years ended 31 December 2013 and 2012 are as follows:

	2013	2012
	RMB'000	RMB'000
Fees – directors	2,513	2,600
Salaries, bonuses, allowances and benefits in kind	51,235	45,534
Contributions to pension plans	142	122
Share-based compensation expenses charged to income statement	16,242	18,021
	<u>70,132</u>	<u>66,277</u>
Number of directors		
– With emoluments	6	6
– Without emoluments	2	3
Number of directors	<u>8</u>	<u>9</u>

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2013 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind	Contributions to pension plans	Share-based compensation expenses	Total RMB'000
		RMB'000	RMB'000	RMB'000	
Ma Huateng (CEO)	–	23,071	71	–	23,142
Zhang Zhidong	–	15,918	71	–	15,989
Lau Chi Ping Martin	1,097	12,246	–	15,300	28,643
Iain Ferguson Bruce	629	–	–	538	1,167
Ian Charles Stone	433	–	–	404	837
Li Dong Sheng	354	–	–	–	354
Jacobus Petrus Bekker	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	<u>2,513</u>	<u>51,235</u>	<u>142</u>	<u>16,242</u>	<u>70,132</u>

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng (CEO)	–	20,617	61	–	20,678
Zhang Zhidong	–	14,741	61	–	14,802
Lau Chi Ping Martin	1,136	10,176	–	16,153	27,465
Iain Ferguson Bruce	651	–	–	1,001	1,652
Ian Charles Stone	447	–	–	774	1,221
Li Dong Sheng	366	–	–	93	459
Antonie Andries Roux (Note)	–	–	–	–	–
Jacobus Petrus Bekker	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	<u>2,600</u>	<u>45,534</u>	<u>122</u>	<u>18,021</u>	<u>66,277</u>

Note:

Mr Antonie Andries Roux ceased to be a non-executive director of the Company on 24 June 2012.

During the years ended 31 December 2013 and 2012, no options/awarded shares were granted to any executive, non-executive or independent non-executive directors of the Company.

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2013 and 2012.

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Senior management's emoluments

Senior management includes directors, CEO, president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO whose details have been reflected in Note 34(a) is as follows:

	2013	2012
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	109,378	116,931
Contributions to pension plans	786	706
Share-based compensation expenses charged to income statement	148,721	107,495
	<u>258,885</u>	<u>225,132</u>

The emoluments of the senior management fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HKD800,000 - HKD15,000,000	8	6
HKD15,000,001 - HKD30,000,000	3	8
HKD30,000,001 - HKD45,000,000	3	–
HKD45,000,001 - HKD60,000,000	–	1
HKD75,000,001 - HKD90,000,000	1	–

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35 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group did not include any director during the year 2013 (2012: two, whose details have been reflected in the analysis presented Note 34). The emoluments paid/payable to the five (2012: three) individuals during the year were as follows:

	2013	2012
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	176,100	27,017
Contributions to pension plans	669	140
Share-based compensation expenses charged to income statement	375,153	55,251
	551,922	82,408

The emoluments of the above five individuals (2012: three) fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HKD23,500,001 - HKD24,000,000	–	1
HKD26,500,001 - HKD27,000,000	–	1
HKD50,500,001 - HKD51,000,000	–	1
HKD54,000,001 - HKD54,500,000	1*	–
HKD82,000,001 - HKD82,500,000	1	–
HKD87,500,001 - HKD88,000,000	1*	–
HKD238,500,001 - HKD239,000,000	1*	–
HKD239,000,001 - HKD239,500,000	1*	–

* Employees of a foreign subsidiary of the Group. The respective emolument amounts are mainly comprised of charges related to the vesting of share-based compensation and the re-measurement appreciation of cash-settled share-based award grants.

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36 FINANCE COSTS, NET

	2013	2012
	RMB'Million	RMB'Million
Exchange gains/(losses)	310	(21)
Interest and related expenses	(394)	(327)
	(84)	(348)

Interest expenses mainly arose from the borrowings and long-term notes mentioned in Note 25 and Note 26, respectively.

37 TAX EXPENSE

(a) Income tax expense

- (i) Cayman Islands and British Virgin Islands corporate income tax ("CIT")

The Group was not subject to any taxation in these jurisdictions for the years ended 31 December 2013 and 2012.

- (ii) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year ended 31 December 2013.

- (iii) PRC corporate income tax

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

In 2011, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law.

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37 TAX EXPENSE (Cont'd)

(a) Income tax expense (Cont'd)

(iii) PRC corporate income tax (Cont'd)

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

(iv) United States corporate income tax

United States CIT provision was provided during the year ended 31 December 2013 for the entities within the Group which were incorporated in the United States with estimated assessable profits, at applicable tax rate of 36% (2012: 36%).

(v) Corporate income tax in other countries

CIT provision has been provided for the year ended 31 December 2013 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35% (2012: from 12.5% to 35%).

(vi) PRC withholding tax

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

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37 TAX EXPENSE (Cont'd)

(a) Income tax expense (Cont'd)

The income tax expense of the Group for the years ended 31 December 2013 and 2012 are analysed as follows:

	2013	2012
	RMB'Million	RMB'Million
Current tax	3,607	1,747
Deferred income tax (Note 28)	111	519
	<u>3,718</u>	<u>2,266</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended 31 December 2013 (2012: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments. The difference is analysed as follows:

	2013	2012
	RMB'Million	RMB'Million
Profit before income tax	19,281	15,051
Share of (profit)/losses of associates and joint ventures	(171)	80
	<u>19,110</u>	<u>15,131</u>
Tax calculated at a tax rate of 25% (2012: 25%)	4,777	3,783
Effects of different tax rates applicable to different subsidiaries of the Group	(1,657)	(2,028)
Effects of tax holiday on assessable profits of subsidiaries	(317)	(308)
Income not subject to tax	(125)	(110)
Expenses not deductible for tax purposes	358	275
Withholding tax on earnings expected to be remitted		
by PRC subsidiaries (Note 28)	347	552
Unrecognised deferred income tax assets	315	87
Others	20	15
	<u>3,718</u>	<u>2,266</u>
Income tax expense	<u>3,718</u>	<u>2,266</u>

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37 TAX EXPENSE (Cont'd)

(b) Value-added tax, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6-17%	Sales value of goods sold and service fee income, offsetting by VAT on purchases
	3%	Sales value of goods sold and services fee income
Business tax ("BT")	3-5%	Services fee income
City construction tax	7%	Net VAT and BT payable amount
Construction fee for cultural undertakings	3%	Advertising income
Educational surcharge	5%	Net VAT and BT payable amount

38 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2013 is dealt with in the financial statements of the Company to the extent of RMB1,307 million (2012: RMB3,264 million).

39 EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to equity holders of the Company (RMB'Million)	<u>15,502</u>	<u>12,732</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,832</u>	<u>1,828</u>
Basic EPS (RMB per share)	<u>8.464</u>	<u>6.965</u>

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39 EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the year ended 31 December 2013, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	2013	2012
Profit attributable to equity holders of the Company (RMB'Million)	15,502	12,732
Weighted average number of ordinary shares in issue (million shares)	1,832	1,828
Adjustments for share options (million shares)	16	23
Adjustments for awarded shares (million shares)	20	12
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	1,868	1,863
Diluted EPS (RMB per share)	8.298	6.833

40 DIVIDENDS

The dividends paid in 2013 amounted to RMB1,468 million (2012: RMB1,108 million), which excluded the dividends of RMB15 million (2012: RMB11 million) related to the shares held by the Share Scheme Trust for the purposes of the Share Award Schemes.

A final dividend in respect of the year ended 31 December 2013 of HKD1.20 per share (2012: HKD1.00 per share) was proposed pursuant to a resolution passed by the Board on 19 March 2014 and subject to the approval of the shareholders at the annual general meeting to be held on 14 May 2014 ("AGM"). The consolidated financial statements do not reflect this dividends payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

41 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2013	2012
	RMB'Million	RMB'Million
Profit for the year	15,563	12,785
Adjustments for:		
Income tax expense	3,718	2,266
Gains on disposal of investees	(267)	(7)
Dividend income	(509)	(407)
Depreciation of fixed assets and investment properties	2,484	1,880
Amortisation of intangible assets	1,106	733
Amortisation of land use rights	16	8
Losses/(gains) on disposals of fixed assets	6	(1)
Losses from derivative financial instruments	–	21
Interest income	(1,314)	(836)
Equity-settled share-based compensation expenses	1,168	905
Share of (profit)/losses of associates	(213)	54
Share of losses of joint ventures	42	26
Impairment provision for available-for-sale financial assets, associates and joint ventures	87	699
Exchange (gains)/losses	(310)	21
Changes in working capital:		
Accounts receivable	(606)	(267)
Inventories	(815)	(301)
Prepayments, deposits and other receivables	(940)	(2,255)
Accounts payable	2,036	1,689
Other payables and accruals	4,071	1,786
Other tax liabilities	52	397
Restricted cash	(1,611)	(640)
Deferred revenue	3,728	3,098
Cash generated from operating activities	27,492	21,654

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to cash inflow from operating activities: (Cont'd)

In the Consolidated Statement of Cash Flows, proceeds from disposals of fixed assets comprise:

	2013	2012
	RMB'Million	RMB'Million
Net book amount	177	3
Search business related assets treated as consideration of the Sogou acquisition	(154)	–
(Losses)/gains on disposals of fixed assets	(6)	1
	<u>17</u>	<u>4</u>
Proceeds from disposals of fixed assets	<u>17</u>	<u>4</u>

(b) Major non-cash transactions

Other than search businesses related assets treated as consideration of the Sogou acquisition described in Note 41(a), there were no material non-cash transactions for the year ended 31 December 2013.

42 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2013.

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2013 and 2012 are analysed as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Contracted:		
Construction/purchase of building and purchase of land use rights	2,166	447
Purchase of other fixed assets	403	142
Capital investment in investees	854	868
	<u>3,423</u>	<u>1,457</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

43 COMMITMENTS (Cont'd)

(a) Capital commitments (Cont'd)

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Authorised but not contracted:		
Construction/purchase of building and purchase of land use rights	851	1,109
Capital investment in investees	—	451
	<u>851</u>	<u>1,560</u>
	<u>4,274</u>	<u>3,017</u>

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Contracted:		
Not later than one year	760	533
Later than one year and not later than five years	2,013	1,360
Later than five years	1,455	288
	<u>4,228</u>	<u>2,181</u>

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements are as follows:

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Contracted:		
Not later than one year	1,397	1,052
Later than one year and not later than five years	1,299	1,299
	<u>2,696</u>	<u>2,351</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

44 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 11 (loans to associates and transactions with associates), Note 21 (Share options and share award schemes), Note 34 (Directors' and senior management's emoluments) and Note 35 (Five highest paid individuals) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2013, and no other material related parties' balances as at 31 December 2013.

45 SUBSEQUENT EVENTS

(a) Investment in JD.com, Inc. ("JD.com")

In March 2014, the Group entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com ("JD.com Pre-IPO Subscription"), an online direct sales company operating in the PRC, to purchase 351,678,637 ordinary shares of JD.com, representing 15.0% of the outstanding JD.com ordinary shares immediately after the completion of the JD.com Pre-IPO Subscription, at a total consideration of net cash payment, certain eCommerce related businesses and assets of the Group, and 9.9% equity interest in Shanghai Icson E-commerce Development Company Limited ("Shanghai Icson") with a call option granted to acquire the remaining equity interests held by the Group in Shanghai Icson at the higher of RMB800 million and then fair value of the interests. In addition, the Group entered into a strategic cooperation agreement with JD.com. On the same day, the Group also entered into an IPO share subscription agreement to agree to subscribe for a further 5.0% of the outstanding JD.com ordinary shares on a post IPO basis immediately after the consummation of the JD.com's IPO. The Group will account for the investment in JD.com as an investment in associate.

(b) Share subdivision plan

Pursuant to a resolution of the Board of the Company passed on 19 March 2014, a share subdivision plan was proposed that each of the existing issued and unissued ordinary shares of the Company at par value of HK\$0.0001 each would be sub-divided into five shares at par value of HK\$0.00002 each. The proposal is subject to the approval of the shareholders of the Company at AGM.

Independent Auditor's Report



羅兵咸永道

To the shareholders of Tencent Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 68 to 181*, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

* being pages F-122 to F-235 of this Offering Circular

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20 March 2013

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	As at 31 December	
		2012	2011
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets	6	7,402,766	5,884,952
Construction in progress	7	533,691	158,656
Investment properties		21,674	21,871
Land use rights	8	794,439	230,915
Intangible assets	9	4,719,075	3,779,976
Interests in associates	11	7,310,266	4,433,374
Investment in jointly controlled entities		35,409	61,903
Deferred income tax assets	28	168,906	198,058
Available-for-sale financial assets	13	5,632,590	4,343,602
Prepayments, deposits and other assets	16	1,236,129	2,187,570
Long-term deposits	17	10,891,718	—
		<u>38,746,663</u>	<u>21,300,877</u>
Current assets			
Inventories	14	568,084	—
Accounts receivable	15	2,353,959	2,020,796
Prepayments, deposits and other assets	16	3,877,800	2,211,917
Short-term deposits	17	13,805,675	13,716,040
Restricted cash	23	2,520,232	4,942,595
Cash and cash equivalents	18	13,383,398	12,612,140
		<u>36,509,148</u>	<u>35,503,488</u>
Total assets		<u><u>75,255,811</u></u>	<u><u>56,804,365</u></u>

Consolidated Statement of Financial Position

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	199	198
Share premium	19	2,879,990	1,950,876
Shares held for share award scheme	19	(667,464)	(606,874)
Other reserves	20	815,697	409,266
Retained earnings		<u>38,269,085</u>	<u>26,710,368</u>
		41,297,507	28,463,834
Non-controlling interests		<u>850,759</u>	<u>624,510</u>
Total equity		<u>42,148,266</u>	<u>29,088,344</u>
LIABILITIES			
Non-current liabilities			
Borrowings	25	2,105,643	–
Long-term notes payable	26	7,516,766	3,733,331
Deferred income tax liabilities	28	1,311,562	939,534
Long-term payables	24	<u>1,508,578</u>	<u>1,859,808</u>
		<u>12,442,549</u>	<u>6,532,673</u>

Consolidated Statement of Financial Position

As at 31 December 2012

		As at 31 December	
	Note	2012 RMB'000	2011 RMB'000
Current liabilities			
Accounts payable	22	4,211,733	2,244,114
Other payables and accruals	23	6,301,449	5,014,281
Derivative financial instruments		–	20,993
Borrowings	25	1,077,108	7,999,440
Current income tax liabilities		419,872	708,725
Other tax liabilities	37(b)	540,095	179,499
Deferred revenue	27	8,114,739	5,016,296
		<u>20,664,996</u>	<u>21,183,348</u>
Total liabilities		<u>33,107,545</u>	<u>27,716,021</u>
Total equity and liabilities		<u>75,255,811</u>	<u>56,804,365</u>
Net current assets		<u>15,844,152</u>	<u>14,320,140</u>
Total assets less current liabilities		<u>54,590,815</u>	<u>35,621,017</u>

The notes on pages 80 to 181* are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 68 to 181** were approved by the Board of Directors on 20 March 2013 and were signed on its behalf:

* being pages F-134 to F-235 of this Offering Circular

** being pages F-122 to F-235 of this Offering Circular

Statement of Financial Position – The Company

As at 31 December 2012

		As at 31 December	
		2012	2011
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets		152	243
Intangible assets		10,309	4,958
Investments in subsidiaries	10(a)	9,419,254	5,782,381
Contribution to Share Scheme Trust	10(c)	11,467	896
		<u>9,441,182</u>	<u>5,788,478</u>
Current assets			
Amounts due from subsidiaries	10(b)	4,906,150	1,260,180
Prepayments, deposits and other receivables		25,422	3,706
Cash and cash equivalents	18	165,534	187,791
		<u>5,097,106</u>	<u>1,451,677</u>
Total assets		<u>14,538,288</u>	<u>7,240,155</u>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	199	198
Share premium	19	2,879,990	1,950,876
Shares held for share award scheme	19	(667,464)	(606,874)
Retained earnings		2,456,290	246,667
Total equity		<u>4,669,015</u>	<u>1,590,867</u>

Statement of Financial Position – The Company

As at 31 December 2012

	Note	As at 31 December	
		2012	2011
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term notes payable	26	<u>7,516,766</u>	<u>3,733,331</u>
Current liabilities			
Amounts due to subsidiaries	10(b)	<u>2,308,028</u>	<u>1,829,429</u>
Other payables and accruals		<u>44,479</u>	<u>86,528</u>
		<u>2,352,507</u>	<u>1,915,957</u>
Total liabilities		<u>9,869,273</u>	<u>5,649,288</u>
Total equity and liabilities		<u>14,538,288</u>	<u>7,240,155</u>
Net current assets/(liabilities)		<u>2,744,599</u>	<u>(464,280)</u>
Total assets less current liabilities		<u>12,185,781</u>	<u>5,324,198</u>

The notes on pages 80 to 181* are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 68 to 181** were approved by the Board of Directors on 20 March 2013 and were signed on its behalf:

* being pages F-134 to F-235 of this Offering Circular

** being pages F-122 to F-235 of this Offering Circular

Consolidated Income Statement

For the year ended 31 December 2012

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Revenues			
Internet value-added services		31,995,183	23,042,758
Mobile and telecommunications value-added services		3,722,968	3,270,841
Online advertising		3,382,328	1,992,216
e-Commerce transactions		4,427,806	–
Others		365,426	190,257
	5	43,893,711	28,496,072
Cost of revenues	29, 32	(18,207,360)	(9,928,308)
Gross profit		25,686,351	18,567,764
Interest income	30	835,671	468,990
Other (losses)/gains, net	31	(283,900)	420,803
Selling and marketing expenses	32	(2,993,437)	(1,920,853)
General and administrative expenses	32	(7,765,272)	(5,283,154)
Operating profit		15,479,413	12,253,550
Finance (costs)/income, net	36	(347,518)	35,505
Share of losses of associates		(54,386)	(24,255)
Share of losses of jointly controlled entities		(26,494)	(165,731)
Profit before income tax		15,051,015	12,099,069
Income tax expense	37(a)	(2,266,163)	(1,874,238)
Profit for the year		12,784,852	10,224,831
Attributable to:			
Equity holders of the Company		12,731,871	10,203,083
Non-controlling interests		52,981	21,748
		12,784,852	10,224,831

Consolidated Income Statement

For the year ended 31 December 2012

		Year ended 31 December	
		2012	2011
	Note	RMB'000	RMB'000
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	39(a)	<u>6.965</u>	<u>5.609</u>
– diluted	39(b)	<u>6.833</u>	<u>5.490</u>
Dividend per share			
Final dividend proposed	40	<u>HKD1.00</u>	<u>HKD0.75</u>

The notes on pages 80 to 181* are an integral part of these consolidated financial statements.

* being pages F-134 to F-235 of this Offering Circular

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit for the year	12,784,852	10,224,831
Other comprehensive income, net of tax:		
Net gains/(losses) from changes in fair value of available-for-sale financial assets	823,893	(1,233,873)
Currency translation differences	10,065	(34,256)
	833,958	(1,268,129)
Total comprehensive income for the year	13,618,810	8,956,702
Attributable to:		
Equity holders of the Company	13,566,608	8,937,627
Non-controlling interests	52,202	19,075
	13,618,810	8,956,702

The notes on pages 80 to 181* are an integral part of these consolidated financial statements.

* being pages F-134 to F-235 of this Offering Circular

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to equity holders of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for share		Retained earnings RMB'000	Non-controlling Total interests RMB'000	Total equity RMB'000	
			award scheme RMB'000	Other reserves RMB'000				
Balance at 1 January 2012	198	1,950,876	(606,874)	409,266	26,710,368	28,463,834	624,510	29,088,344
Comprehensive income								
Profit for the year	-	-	-	-	12,731,871	12,731,871	52,981	12,784,852
Other comprehensive income:								
– net gains from changes in fair value of available-for-sale financial assets	-	-	-	823,893	-	823,893	-	823,893
– currency translation differences	-	-	-	10,844	-	10,844	(779)	10,065
Total comprehensive income for the year	-	-	-	834,737	12,731,871	13,566,608	52,202	13,618,810
Transaction with owners								
Capital injection	-	-	-	-	-	-	21,920	21,920
Employee share option schemes:								
– value of employee services	-	95,099	-	59,431	-	154,530	21,715	176,245
– proceeds from shares issued	1	238,492	-	-	-	238,493	-	238,493
Employee share award scheme:								
– value of employee services	-	676,699	-	45,292	-	721,991	6,556	728,547
– shares purchased for share award scheme	-	-	(121,534)	-	-	(121,534)	-	(121,534)
– vesting of awarded shares	-	(60,944)	60,944	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	65,265	(65,265)	-	-	-
Repurchase and cancellation of shares	-	(20,232)	-	-	-	(20,232)	-	(20,232)
Dividends (Note 40)	-	-	-	-	(1,107,889)	(1,107,889)	(117,483)	(1,225,372)
Total contributions by and distributions to owners for the year	1	929,114	(60,590)	169,988	(1,173,154)	(134,641)	(67,292)	(201,933)
Non-controlling interests arising from business combinations (Note 41)	-	-	-	-	-	-	249,181	249,181
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	-	-	(240,676)	-	(240,676)	(7,842)	(248,518)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	-	-	-	(357,618)	-	(357,618)	-	(357,618)
Total transactions with owners for the year	1	929,114	(60,590)	(428,306)	(1,173,154)	(732,935)	174,047	(558,888)
Balance at 31 December 2012	199	2,879,990	(667,464)	815,697	38,269,085	41,297,507	850,759	42,148,266

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held		Retained earnings	Non-controlling interests	Total equity	
			for share award scheme	Other reserves				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2011	198	2,299,965	(258,137)	1,919,695	17,795,225	21,756,946	83,912	21,840,858
Comprehensive income								
Profit for the year	-	-	-	-	10,203,083	10,203,083	21,748	10,224,831
Other comprehensive income:								
– net losses from changes in fair value of available-for-sale financial assets	-	-	-	(1,233,873)	-	(1,233,873)	-	(1,233,873)
– currency translation differences	-	-	-	(31,583)	-	(31,583)	(2,673)	(34,256)
Total comprehensive income for the year	-	-	-	(1,265,456)	10,203,083	8,937,627	19,075	8,956,702
Transaction with owners								
Capital injection	-	-	-	-	-	-	9,800	9,800
Employee share option schemes:								
– value of employee services	-	110,322	-	48,911	-	159,233	-	159,233
– proceeds from shares issued	-	159,729	-	-	-	159,729	-	159,729
Employee share award scheme:								
– value of employee services	-	517,870	-	58,264	-	576,134	-	576,134
– shares purchased for share award scheme	-	-	(438,714)	-	-	(438,714)	-	(438,714)
– vesting of awarded shares	-	(89,977)	89,977	-	-	-	-	-
Profit appropriations to statutory reserves	-	-	-	439,650	(439,650)	-	-	-
Repurchase and cancellation of shares	-	(1,047,033)	-	-	-	(1,047,033)	-	(1,047,033)
Dividends	-	-	-	-	(838,290)	(838,290)	(56,531)	(894,821)
Transfer to reserve	-	-	-	10,000	(10,000)	-	-	-
Total contributions by and distributions to owners for the year	-	(349,089)	(348,737)	556,825	(1,287,940)	(1,428,941)	(46,731)	(1,475,672)
Non-controlling interests and deemed consideration arising from business combinations	-	-	-	(154,732)	-	(154,732)	581,725	426,993
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	-	-	23,919	-	23,919	(13,471)	10,448
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	-	-	-	(670,985)	-	(670,985)	-	(670,985)
Total transactions with owners for the year	-	(349,089)	(348,737)	(244,973)	(1,287,940)	(2,230,739)	521,523	(1,709,216)
Balance at 31 December 2011	198	1,950,876	(606,874)	409,266	26,710,368	28,463,834	624,510	29,088,344

The notes on pages 80 to 181* are an integral part of these consolidated financial statements.

* being pages F-134 to F-235 of this Offering Circular

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	42(a)	21,654,234	15,194,370
Income tax paid		(2,224,777)	(1,836,263)
Net cash flows generated from operating activities		19,429,457	13,358,107
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		(434,679)	(1,444,442)
Purchase of fixed assets, construction in progress and investment properties		(3,656,886)	(4,059,717)
Proceeds from disposals of fixed assets	42(a)	4,100	599
Payments for interests in associates		(3,668,207)	(3,528,714)
Payments for investment in jointly controlled entities		–	(194,915)
Purchase/prepayment of intangible assets		(869,011)	(788,375)
Purchase/prepayment of land use rights		(312,829)	(5,950)
Purchase of available-for-sale financial assets		(556,564)	(1,706,752)
Proceeds from disposal of interests in associates		110,940	–
Payments for loan to jointly controlled entities		(34,001)	(15,764)
Receipt from maturity of term deposits with initial term of over three months		18,531,774	5,989,298
Placement of term deposits with initial term over three months		(29,513,127)	(7,979,595)
Refund of/(payments for) restricted cash		3,062,576	(2,055,486)
Interest received		625,839	415,055
Dividends received		439,867	20,000
Net cash flows used in investing activities		(16,270,208)	(15,354,758)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from short-term borrowings	982,915	6,682,837
Repayment of short-term borrowings	(8,024,071)	(3,765,941)
Payment for derivative financial instruments in relation to short-term borrowings	(41,760)	(93,761)
Proceed from long-term borrowings	2,215,305	–
Net proceed from issuance of long-term notes	3,767,767	3,760,928
Proceeds from issuance of ordinary shares	238,493	159,729
Payments for repurchase of shares	(20,232)	(1,047,033)
Payment for purchase of shares for share award scheme	(121,534)	(438,714)
Proceeds from capital injection from non-controlling interests	21,920	9,800
Dividends paid to the Company's shareholders	(1,107,889)	(838,290)
Dividends paid to non-controlling interests	(117,483)	(56,531)
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	(179,409)	–
Net cash flows (used in)/generated from financing activities	(2,385,978)	4,373,024
Net increase in cash and cash equivalents	773,271	2,376,373
Cash and cash equivalents at beginning of the year	12,612,140	10,408,257
Exchange losses on cash and cash equivalents	(2,013)	(172,490)
Cash and cash equivalents at end of the year	13,383,398	12,612,140

The notes on pages 80 to 181* are an integral part of these consolidated financial statements.

* being pages F-134 to F-235 of this Offering Circular

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of Internet value-added services (“IVAS”), mobile and telecommunications value-added services (“MVAS”), online advertising services and e-Commerce transactions services to users in the People’s Republic of China (the “PRC”).

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited (“Tencent Computer”), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the “Registered Shareholders”).

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited (“Tencent Technology”), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Under a series of contractual arrangements (collectively, “Structure Contracts”) entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer without making any payment; and
- the right to control the management and financial and operating policies of Tencent Computer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a subsidiary and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as subsidiaries of the Company and their financial statements have also been consolidated by the Company.

The consolidated financial statements of the Group have been approved for issue by the board of directors of the Company (the "Board") on 20 March 2013.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The new or revised standards and amendments to the existing standards, which are mandatory for the financial year of the Group beginning 1 January 2012, are either not currently relevant or have no material impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

The following new and revised standards have been issued but are not effective for the financial year beginning 1 January 2012, and have not been early adopted by the Group.

- IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces certain parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2015.
- IFRS 10 'Consolidated Financial Statements' builds on the existing principles by identifying the concept of control as the determining factor for whether an entity should be included in the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control in situations where assessment is difficult. The Group is yet to assess the full impact of IFRS 10 and will adopt this standard from 1 January 2013. According to the preliminary assessment made, management of the Group does not expect the adoption of IFRS 10 would have material impact on the Group's consolidated financial statements.
- IFRS 11 'Joint Arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess the full impact of IFRS 11 and will adopt this standard from 1 January 2013. According to the preliminary assessment made, management of the Group does not expect the adoption of IFRS 11 would have material impact on the Group's consolidated financial statements.
- IFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of IFRS 12 and will adopt this standard from 1 January 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

- IFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess the full impact of IFRS 13 and will adopt this standard from 1 January 2013.

There are no other IFRS or IFRIC interpretations that are not yet effective and would be expected to have a material impact on the Group.

2.2 Subsidiaries

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting rights but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders.

Subsidiaries are fully consolidated from the date on which control is established to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, unrealised gain or losses between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(i) *Business combinations*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the acquisition-date fair value of any previous equity interest in the acquiree, and the amount of any non-controlling interests in the acquiree over the identifiable net assets acquired is recorded as goodwill (Note 2.11). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

For a business combination achieved in stages, the Group applies acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement. Goodwill is calculated by deducting the fair value of identifiable net assets from the fair value of the previously held interest, the consideration and non-controlling interests.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(iii) Partial disposals

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, a jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement where appropriate.

(b) Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 10(c)), a controlled special purpose entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount within "Other gains/(losses), net" in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for using the equity method, which is similar to that for associates in Note 2.3 above. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that investments in jointly controlled entities are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entities and its carrying value and recognises the amount within "Other gains/(losses), net" in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.5 Investment in associate/jointly controlled entity achieved in stages

The cost of an associate/a jointly controlled entity acquired in stages is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when it becomes an associate/a jointly controlled entity. A gain or loss on remeasurement of the previously held interest is taken to the income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Fixed assets

All fixed assets are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses), net" in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 50 years.

Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.10 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the income statement on a straight-line basis over the remaining period of the lease or capitalised in construction in progress upon completion of construction.

2.11 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Intangible assets (Cont'd)

(b) Other intangible assets

Other intangible assets mainly include licence, licensed online contents, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally two to seven years) using the straight-line method or other method reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2.12 Shares held for share award scheme

The consideration paid by the Share Scheme Trust for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme", with a corresponding adjustment to share premium.

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are classified as "Accounts receivable", "Deposits and other receivables", "Loans to associates", "Term deposits", "Restricted cash" and "Cash and cash equivalents" in the statement of financial position.

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets (Cont'd)

(b) Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale financial assets equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets (Cont'd)

- (b) Assets classified as available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within “Other gains/(losses), net”.

2.18 Inventories

Inventories, mainly consisting of merchandise available for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.19 Accounts receivable

Accounts receivable are amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.20 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial maturities of three months or less.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.22 Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Put option liabilities

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially debited to equity at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as income or expenses in the income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liabilities are current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

2.24 Borrowings and long-term notes

Borrowings and long-term notes issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over their period using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Long-term notes are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option scheme and share award scheme), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model – Black-Scholes valuation model (the “BS Model”), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits (Cont'd)

(c) Share-based compensation benefits (Cont'd)

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the “Investments in subsidiaries” in the Company’s statement of financial position.

At each reporting period end, the Group and the Company revise their estimates of the number of options and awarded shares that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the consolidated income statement of the Group and in the “Investments in subsidiaries” of the Company, with a corresponding adjustment made to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition

The Group principally derives revenues from provision of IVAS, MVAS, online advertising services and e-Commerce transactions services in the PRC.

(a) IVAS and MVAS

Revenues from IVAS are derived principally from the provision of online games, community value-added services and applications across various Internet platforms.

MVAS revenues are derived principally from providing users with bundled SMS packages, mobile games, and other mobile value-added services such as mobile music and mobile books.

The IVAS and MVAS can be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platforms and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "Deferred revenue" in the statement of financial position (see Note 27). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase services, the revenue is recognised when the related services are rendered; (ii) when the payment unit is used to purchase virtual products/items in the Group's Internet platforms, the revenue is recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship.

Certain IVAS and MVAS are directly delivered to the Group's customers through the platforms of various subsidiaries of telecommunication operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Network Communications Corporation Limited ("China Unicom") and China Telecommunications Corporation ("China Telecom"). These operators collect the relevant service fees (the "Internet and Mobile Service Fees") on behalf of the Group and are entitled to certain percentages commission fee (defined as "Mobile and Telecom Charges"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to the Group. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(a) IVAS and MVAS (Cont'd)

The Group also opens its Internet platforms to third-party game/application developers. The Group enters into cooperation agreements with third-party game/application developers, pursuant to which the games/applications designed, developed and hosted by third-party developers are available to the users on the Group's Internet platforms. The respective third-party game/application developers are responsible for the users' experiences. Under the terms of the cooperation agreements, the Group pays the third-party developers a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in these games/applications. The Group recognises the related revenue on a net basis because it acts as an agent in the arrangement. The Group also defers the related revenue over an estimated period of the respective products/items as there is an implicit obligation of the Group to maintain and allow access of the users of the games/applications operated by third-party game/application developers through its platforms.

Revenues derived from games/applications hosted by third-party developers on the Group's Internet platform is presented within revenue from IVAS.

(b) Online advertising

Online advertising revenues are mainly derived from display advertising on instant messaging clients, portals, social networks and other platforms, and search advertising through the self-developed search engines of the Group. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For advertising contracts based on the actual time period that the advertisements appear on the Group's instant messaging clients, portals and other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed.

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For the year ended 31 December 2012
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(c) e-Commerce transactions business

Revenues derived from e-Commerce transactions business primarily arise from sales of merchandise through the Group's Internet platforms. The Group recognises revenues from merchandise sales transaction and related costs on a gross basis when it acts as a principal. Following the guidance under IAS 18 "Revenue", whether the Group acts as a principal is based on a number of criteria, including whether it is a primary obligor, whether it is subject to inventory risk, whether it has latitude in establishing prices, whether it has latitude in selecting suppliers, in a transaction. When the Group is not a principal and is instead acting as an agent, revenues are recognised on a net basis which is based on a pre-determined percentage of the sales.

For merchandise sold under e-Commerce transactions business, the customers place their orders online with a commitment made at a fixed selling price. Payment for the purchased merchandise is made either before delivery or upon delivery. When the Group is acting as a principal, revenues, net of discounts and return allowances and value-added tax, are recognised when the merchandise is physically delivered to the respective customers. Return allowances, which reduce the gross amount of revenues, are estimated based on historical experience.

2.29 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.33 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

2.34 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is subject to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group including the executive directors of the Group.

(a) Market risk

i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in activities including payment of dividends, share repurchases and offshore investments, the Group holds some monetary assets denominated in USD, HKD or EUR subject to certain thresholds stated in its treasury mandate, and borrows some loans denominated in USD from time to time. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD, HKD or EUR as management considers that such risk could not be effectively reduced in a low-cost way.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

As at 31 December 2012, the Group and the Company's non-RMB monetary assets and liabilities are listed below:

Group

	Denomination currency	As at 31 December	
		2012 RMB'000	2011 RMB'000
Monetary assets			
Non-current assets	USD	718	–
Current assets	USD	7,818,738	5,645,223
Current assets	HKD	285,222	304,835
Current assets	EUR	417,766	194,705
Monetary liabilities			
Non-current liabilities	USD	10,645,843	5,529,637
Current liabilities	USD	2,276,453	6,600,412
Current liabilities	HKD	22,606	52,086

Company

	Denomination currency	As at 31 December	
		2012 RMB'000	2011 RMB'000
Monetary assets			
Current assets	USD	1,278,151	1,307,290
Current assets	HKD	3,805,001	140,681
Monetary liabilities			
Non-current liabilities	USD	7,516,766	3,733,331

During the year ended 31 December 2012, the Group reported exchange losses of approximately RMB20,956,000 (2011: exchange gains of RMB108,042,000) as a result of RMB appreciation. The losses were recorded in "Finance (costs)/income, net" in the consolidated income statement for the year ended 31 December 2012.

At 31 December 2012, if USD, EUR and HKD had strengthened/weakened by 5% (2011: 5%) against RMB with all other variables held constant, the profit before income tax for the year would have been approximately RMB221,123,000 lower/higher (2011: RMB301,869,000 lower/higher), mainly as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in USD, EUR and HKD.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

ii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as available-for-sale financial assets and derivative financial instruments. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management, including the executive directors and with the involvement of non-executive directors on a case by case basis.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2011: 5%) higher/lower as at 31 December 2012, the other comprehensive income would have been approximately RMB272,330,000 (2011: RMB212,909,000) higher/lower.

iii) Interest rate risk

The Group has interest-bearing assets including receivables in associates and a jointly controlled entity, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 11, 16, 17 and 18.

The Group's interest rate risk arises from borrowings and long-term notes issued by the Group. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates and long-term notes expose the Group to fair value interest rate risk. There is no other written policy on managing the interest rate risk and management is to minimise its impact on the income statement.

Other financial assets and liabilities do not have material interest rate risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

iii) Interest rate risk (Cont'd)

For the year ended 31 December 2012, if the average interest rate on variable interest-bearing borrowings had been 5% (2011: 5%) higher/lower, the Group's profit before income tax for the year would have been approximately RMB4,990,000 (2011: RMB3,165,000) lower/higher.

The Company had no variable interest-bearing liabilities.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) placed with banks and financial institutions, other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For accounts receivable, a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled-back; or if the telecommunications operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's MVAS and IVAS might be adversely affected in terms of recoverability of receivables.

To manage this risk, the Group maintains frequent communication with the telecommunication operators to ensure the co-operation is effective. In view of the history of co-operation with the telecommunication operators and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunications operators is low (see Note 15 for details).

For accounts receivable from advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments representing a certain percentage of the total service fees for each advertising service are required.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalent. For the year ended 31 December 2012, in order to improve liquidity, the Group also issued long-term notes (see Note 26).

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2012					
Long-term notes payable	301,704	301,704	4,501,989	3,834,941	8,940,338
Long-term payables	–	283,803	1,151,622	194,641	1,630,066
Borrowings	1,160,656	244,058	1,963,660	–	3,368,374
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	8,216,085	–	–	–	8,216,085
Total	9,678,445	829,565	7,617,271	4,029,582	22,154,863
At 31 December 2011					
Long-term notes payable	174,850	174,850	4,305,090	–	4,654,790
Long-term payables	–	316,622	641,070	1,002,541	1,960,233
Borrowings	7,999,440	–	–	–	7,999,440
Derivative financial instruments	20,993	–	–	–	20,993
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	7,155,609	–	–	–	7,155,609
Total	15,350,892	491,472	4,946,160	1,002,541	21,791,065

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Company

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2012					
Long-term notes payable	301,704	301,704	4,501,989	3,834,941	8,940,338
Amounts due to subsidiaries	2,308,028	–	–	–	2,308,028
Other payables and accruals	44,479	–	–	–	44,479
Total	<u>2,654,211</u>	<u>301,704</u>	<u>4,501,989</u>	<u>3,834,941</u>	<u>11,292,845</u>
At 31 December 2011					
Long-term notes payable	174,850	174,850	4,305,090	–	4,654,790
Amounts due to subsidiaries	1,829,429	–	–	–	1,829,429
Other payables and accruals	86,528	–	–	–	86,528
Total	<u>2,090,807</u>	<u>174,850</u>	<u>4,305,090</u>	<u>–</u>	<u>6,570,747</u>

Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidation statement of financial position, which is also equal to total assets less total liabilities.

The gearing ratios as at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Total liabilities	33,107,545	27,716,021
Total assets	75,255,811	56,804,365
Gearing ratio	44%	49%

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value as at 31 December 2012:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	4,083,100	–	1,549,490	5,632,590

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2011:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	3,318,794	–	1,024,808	4,343,602
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	–	20,993	–	20,993

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

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For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012:

	Available-for-sale financial assets RMB'000
Opening balance	1,024,808
Additions	556,564
Transfer to interests in associates	(31,139)
Net gains recognised in other comprehensive income	53,967
Impairment provision	(54,710)
Closing balance	1,549,490

The following table presents the changes in level 3 instruments for the year ended 31 December 2011:

	Available-for-sale financial assets RMB'000
Opening balance	257,845
Additions	802,963
Impairment provision	(36,000)
Closing balance	1,024,808

Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Recognition of revenues and accounts receivable related to IVAS and MVAS

For IVAS and MVAS delivered through the platforms of telecommunication operators, the Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by these operators to the Group on a monthly basis. For those Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data.

As at 31 December 2012, the balance of accounts receivable to be confirmed by China Mobile, China Unicom and China Telecom and their branches, subsidiaries and affiliates was estimated to be RMB706,139,000 (2011: RMB746,471,000).

Were the actual outcome to differ by 5% (2011: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB35,307,000 (2011: RMB37,324,000) if unfavourable; or
- increase the revenue and accounts receivable by RMB35,307,000 (2011: RMB37,324,000) if favourable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses

As mentioned in Note 2.26(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 21).

The fair value of options granted for the year ended 31 December 2012 determined using the BS Model was approximately HKD14,572,000 (equivalent to approximately RMB11,902,000) (2011: HKD63,000,000 (equivalent to approximately RMB52,290,000)).

In addition, the Group also granted awarded shares to its employees at fair value of HKD1,861,663,000 (equivalent to approximately RMB1,519,969,000) during 2012 (2011: HKD1,157,928,000 (equivalent to approximately RMB957,258,000)).

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares who will stay within the Group at the end of the vesting periods ("Expected Retention Rate of Grantees") in order to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2012, the Expected Retention Rate of Grantees was assessed to be 91% (2011: 91%).

If the Expected Retention Rate of Grantees had been increased/decreased by 5% (2011: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB64,414,000 (2011: RMB65,143,000).

(c) The estimates of the lifespan of virtual products/items provided in the Group's Internet platform

As mentioned in Note 2.28(a), the end users purchase certain virtual products/items provided in the Group's Internet platforms and the relevant revenue is recognised based on the lifespan of the virtual products/items. The Group uses the available information, including the historical user pattern and behavior and the stipulated period of validity of the relevant virtual products/items, to estimate the lifespan of these products/items.

The Group will continue to monitor the average lifespan of the virtual products/items (provided and to be provided), which may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis than in prior periods.

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For the year ended 31 December 2012
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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) Income taxes

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

Were the actual final outcome (on the judgement areas) to differ by 5% from management's estimates, the group would need to:

- Increase the income tax liabilities by RMB20,994,000 (2011: RMB35,436,000) and the deferred tax liabilities by RMB65,578,000 (2011: RMB46,977,000), if unfavourable; or
- Decrease the income tax liabilities by RMB20,994,000 (2011: RMB35,436,000) and the deferred tax liabilities by RMB65,578,000 (2011: RMB46,977,000), if favourable.

(e) Estimation of put option liabilities

The Group granted some put options to the non-controlling interest owners that they have the right to request the Group to repurchase their equity interest in certain non-wholly owned subsidiaries when certain conditions are met. The repurchase prices were determined by making reference to the revenue or profit to be generated by those subsidiaries in future periods. The Group will initially recognise a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows and the adjustments will be recognised as income or expenses in the income statement.

Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.2 Critical judgments in applying the Group's accounting policies

Recognition of deferred tax assets

Certain intra-group software and technology sales have been transacted within the Group. The self-developed software and technology purchased by two subsidiary companies, Tencent Computer and Shiji Kaixuan Technology Limited ("Shiji Kaixuan"), from other group companies have been initially recorded at the purchase prices as costs and then amortised over their contracted useful lives (the "Amortisation") in their local statutory financial statements, while these transactions were eliminated at the group level.

The Amortisation has been treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan for tax reporting purposes while the costs of purchase of these assets were eliminated in preparation of the consolidated financial statements of the Group. As a result, deferred tax assets have been recognised, based on temporary differences arising from the accounting base (at the group level, which is zero) and the tax base of the software and technology involved in these intra-group transactions, at the respective enacted corporate income tax rates of Tencent Computer and Shiji Kaixuan.

As at 31 December 2012, the relevant deferred tax assets were approximately RMB161,589,000 (2011: RMB197,010,000) (Note 28), which are expected to be recovered by the tax profits to be generated from Tencent Computer and Shiji Kaixuan in future.

5 SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance and allocate resources, and determine the operating segments based on these reports.

Due to the fact that the scale of e-Commerce transactions business of the Group increased significantly in 2012, the executive directors of the Company treated e-Commerce transactions business as a separate segment of the Group's operations. As a result, a new line of segment information has been presented since 1 January 2012. No comparative figure of 2011 is presented since the amount involved was insignificant.

The Group has following reportable segments for the years ended 31 December 2012 and 2011:

- IVAS;
- MVAS;
- Online advertising;
- e-Commerce transactions; and
- Others.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

5 SEGMENT INFORMATION (Cont'd)

Other segments of the Group mainly comprise of the provision of trademark licensing, software development services and software sales.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit/(losses) of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other (losses)/gains, net, finance (costs)/income, net and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended 31 December 2012 and 2011. 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.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in this annual report. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2012 and 2011 is as follows:

	Year ended 31 December 2012					
	IVAS	MVAS	Online	e-Commerce	Others	Total
			advertising	transactions		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Segment revenues	<u>31,995,183</u>	<u>3,722,968</u>	<u>3,382,328</u>	<u>4,427,806</u>	<u>365,426</u>	<u>43,893,711</u>
Gross profit	<u>21,399,216</u>	<u>2,254,617</u>	<u>1,649,624</u>	<u>235,210</u>	<u>147,684</u>	<u>25,686,351</u>
Depreciation	1,117,278	113,670	106,603	9,513	17,208	1,364,272
Amortisation	199,681	-	198,963	-	-	398,644
Share of (losses)/profit of associates	(76,934)	(8,230)	-	(32,982)	63,760	(54,386)
Share of losses of jointly controlled entities	<u>(26,494)</u>	-	-	-	-	<u>(26,494)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

5 SEGMENT INFORMATION (Cont'd)

	Year ended 31 December 2011				
	IVAS RMB'000	MVAS RMB'000	Online		Total RMB'000
			advertising RMB'000	Others RMB'000	
Segment revenues	<u>23,042,758</u>	<u>3,270,841</u>	<u>1,992,216</u>	<u>190,257</u>	<u>28,496,072</u>
Gross profit/(losses)	<u>15,409,134</u>	<u>2,011,085</u>	<u>1,197,260</u>	<u>(49,715)</u>	<u>18,567,764</u>
Depreciation	724,418	66,249	58,605	34,666	883,938
Amortisation	67,056	-	-	-	67,056
Share of losses of associates	(23,513)	(742)	-	-	(24,255)
Share of losses of jointly controlled entities	<u>(165,731)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(165,731)</u>

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. For the year ended 31 December 2012, the geographical information on the total revenues is as follows:

	2012 RMB'000	2011 RMB'000
Revenues		
– Mainland China	41,735,101	28,027,516
– Others	2,158,610	468,556
	<u>43,893,711</u>	<u>28,496,072</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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5 SEGMENT INFORMATION (Cont'd)

The Group also conduct operations in United States, Europe and other regions, and holds financial instruments as investments which are traded in other territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Operating assets		
– Mainland China	51,535,029	42,019,485
– Others	3,174,486	2,826,406
Investments		
– Mainland China	4,817,738	4,409,589
– Hong Kong	6,381,699	3,538,071
– United States	2,938,082	206,962
– Europe	3,973,735	2,658,526
– Others	2,435,042	1,145,326
	<u>75,255,811</u>	<u>56,804,365</u>

As at 31 December 2012, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China were RMB26,536,881,000 (2011: RMB13,620,472,000), and located in other areas were RMB6,408,286,000 (2011: RMB3,138,745,000).

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the year ended 31 December 2012.

Turnover consists of revenues generated by the Group, which were RMB43,893,711,000 and RMB28,496,072,000 for the years ended 31 December 2012 and 2011, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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6 FIXED ASSETS

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012						
Cost	1,731,913	6,159,151	255,073	12,631	385,638	8,544,406
Accumulated depreciation	(184,746)	(2,288,953)	(70,764)	(6,534)	(108,131)	(2,659,128)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Net book amount	<u>1,547,167</u>	<u>3,869,940</u>	<u>184,274</u>	<u>6,097</u>	<u>277,474</u>	<u>5,884,952</u>
Year ended 31 December 2012						
Opening net book amount	1,547,167	3,869,940	184,274	6,097	277,474	5,884,952
Business combinations	–	693	19,431	497	2,890	23,511
Other additions	626,146	2,388,420	147,189	19,756	196,541	3,378,052
Disposals	–	–	(2,731)	–	(169)	(2,900)
Depreciation	(95,975)	(1,610,374)	(64,351)	(5,947)	(102,957)	(1,879,604)
Exchange difference	–	(2,070)	524	–	301	(1,245)
Closing net book amount	<u>2,077,338</u>	<u>4,646,609</u>	<u>284,336</u>	<u>20,403</u>	<u>374,080</u>	<u>7,402,766</u>
At 31 December 2012						
Cost	2,358,059	8,227,107	415,310	32,884	584,775	11,618,135
Accumulated depreciation	(280,721)	(3,578,170)	(131,463)	(12,481)	(210,963)	(4,213,798)
Exchange difference	–	(2,328)	489	–	268	(1,571)
Net book amount	<u>2,077,338</u>	<u>4,646,609</u>	<u>284,336</u>	<u>20,403</u>	<u>374,080</u>	<u>7,402,766</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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6 FIXED ASSETS (Cont'd)

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011						
Cost	1,368,462	3,185,873	125,816	7,636	130,305	4,818,092
Accumulated depreciation	(106,924)	(1,314,636)	(37,158)	(5,681)	(60,865)	(1,525,264)
Net book amount	<u>1,261,538</u>	<u>1,871,237</u>	<u>88,658</u>	<u>1,955</u>	<u>69,440</u>	<u>3,292,828</u>
Year ended 31 December 2011						
Opening net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828
Business combinations	–	17,388	1,113	415	122	19,038
Other additions	363,067	3,030,367	129,038	4,947	256,018	3,783,437
Disposals	–	(1,870)	(104)	(37)	(282)	(2,293)
Depreciation	(77,438)	(1,046,924)	(34,396)	(1,183)	(47,791)	(1,207,732)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Closing net book amount	<u>1,547,167</u>	<u>3,869,940</u>	<u>184,274</u>	<u>6,097</u>	<u>277,474</u>	<u>5,884,952</u>
At 31 December 2011						
Cost	1,731,913	6,159,151	255,073	12,631	385,638	8,544,406
Accumulated depreciation	(184,746)	(2,288,953)	(70,764)	(6,534)	(108,131)	(2,659,128)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Net book amount	<u>1,547,167</u>	<u>3,869,940</u>	<u>184,274</u>	<u>6,097</u>	<u>277,474</u>	<u>5,884,952</u>

For the year ended 31 December 2012, depreciation of RMB1,364,272,000 (2011: RMB883,938,000), RMB20,907,000 (2011: RMB13,377,000) and RMB494,425,000 (2011: RMB310,417,000) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

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7 CONSTRUCTION IN PROGRESS

	2012	2011
	RMB'000	RMB'000
Opening net book amount	158,656	386,943
Additions	640,012	500,268
Transfer to fixed assets	(264,977)	(728,555)
	<hr/>	<hr/>
Closing net book amount	533,691	158,656
	<hr/> <hr/>	<hr/> <hr/>

8 LAND USE RIGHTS

	2012	2011
	RMB'000	RMB'000
Opening net book amount	230,915	229,890
Additions	571,066	5,950
Amortisation	(7,542)	(4,925)
	<hr/>	<hr/>
Closing net book amount	794,439	230,915
	<hr/> <hr/>	<hr/> <hr/>

The land use rights all relate to land in the PRC with remaining lease period of 44 to 49 years. For the year ended 31 December 2012, RMB7,542,000 (2011: RMB4,925,000) of the amortisation was charged as general and administrative expenses.

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9 INTANGIBLE ASSETS

	Goodwill	Computer software and technology	Licences	Licensed online contents	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012						
Cost	2,694,696	629,661	1,355,071	–	282,635	4,962,063
Accumulated amortisation	–	(260,349)	(644,798)	–	(193,126)	(1,098,273)
Exchange difference	(78,918)	(332)	(3,074)	–	(1,490)	(83,814)
Net book amount	<u>2,615,778</u>	<u>368,980</u>	<u>707,199</u>	<u>–</u>	<u>88,019</u>	<u>3,779,976</u>
Year ended 31 December 2012						
Opening net book amount	2,615,778	368,980	707,199	–	88,019	3,779,976
Business combinations	318,067	121,717	55,228	–	115,870	610,882
Other additions	–	163,767	100,251	796,737	3,970	1,064,725
Amortisation	–	(176,011)	(242,065)	(265,283)	(49,261)	(732,620)
Exchange difference	(4,926)	1,251	(77)	–	(136)	(3,888)
Closing net book amount	<u>2,928,919</u>	<u>479,704</u>	<u>620,536</u>	<u>531,454</u>	<u>158,462</u>	<u>4,719,075</u>
At 31 December 2012						
Cost	3,012,763	915,145	1,510,550	796,737	402,475	6,637,670
Accumulated amortisation	–	(436,360)	(886,863)	(265,283)	(242,387)	(1,830,893)
Exchange difference	(83,844)	919	(3,151)	–	(1,626)	(87,702)
Net book amount	<u>2,928,919</u>	<u>479,704</u>	<u>620,536</u>	<u>531,454</u>	<u>158,462</u>	<u>4,719,075</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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9 INTANGIBLE ASSETS (Cont'd)

	Goodwill	Computer software and technology	Licences	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011					
Cost	302,701	377,838	222,130	42,364	945,033
Accumulated amortisation	–	(146,841)	(208,115)	(17,096)	(372,052)
Net book amount	<u>302,701</u>	<u>230,997</u>	<u>14,015</u>	<u>25,268</u>	<u>572,981</u>
Year ended 31 December 2011					
Opening net book amount	302,701	230,997	14,015	25,268	572,981
Business combinations	2,391,995	110,031	663,549	239,084	3,404,659
Other additions	–	141,792	469,392	1,187	612,371
Amortisation	–	(113,508)	(436,683)	(176,030)	(726,221)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
Closing net book amount	<u>2,615,778</u>	<u>368,980</u>	<u>707,199</u>	<u>88,019</u>	<u>3,779,976</u>
At 31 December 2011					
Cost	2,694,696	629,661	1,355,071	282,635	4,962,063
Accumulated amortisation	–	(260,349)	(644,798)	(193,126)	(1,098,273)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
Net book amount	<u>2,615,778</u>	<u>368,980</u>	<u>707,199</u>	<u>88,019</u>	<u>3,779,976</u>

Amortisation of RMB333,976,000 (2011: RMB659,165,000) and RMB398,644,000 (2011: RMB67,056,000) were charged as general and administrative expenses and cost of revenues respectively for the year ended 31 December 2012.

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9 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of IVAS.

The recoverable amount of a CGU is the higher of its value-in-use and fair value less costs to sell. The management calculates fair value less costs to sell based on ratios of EV (enterprise value)/EBITDA (earnings before interest, tax, depreciation and amortisation) of several public comparable companies multiplied by the EBITDA of the related CGU and a discount for the lack of marketability.

The key assumptions used for the calculations of fair value less costs to sell in 2012 are as follows:

	2012
EV/EBITDA	6.0-8.0x
Discount for the lack of marketability	25%

The public comparable companies are considered with factors such as industry similarity, company size, profitability and financial risk.

Based on the assessment made by management, no provision for impairment on goodwill was necessary as at 31 December 2012.

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY

(a) Investments in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investments in subsidiaries:		
– Investments in equity interests – at cost, unlisted	69,384	69
– Deemed investments arising from share-based compensation (Note (i))	2,599,653	1,827,855
– Advance to subsidiaries (Note (ii))	6,750,217	3,954,457
	9,419,254	5,782,381

The following is a list of principal subsidiaries of the Company as at 31 December 2012:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB30,000,000	–	100% (Note (iii))	–	100%	Provision of Internet and mobile and telecommunications value-added services, Internet advertisement services and e-Commerce transactions business
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	–	100%	–	100%	Development of computer software and provision of information technology services

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	–	100% (Note (iii))	–	100%	Provision of Internet advertisement service
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD80,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	100%	–	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Nanjing Wang Dian Technology Limited ("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	–	100% (Note (iii))	–	100%	Provision of mobile and telecommunications value-added services
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD60,000,000	–	100%	–	100%	Development of computer software and provision of information technology services
Tencent Technology (Wuhan) Company Limited ("Tencent Wuhan")	Established on 18 November 2011 in the PRC, wholly foreign owned enterprise	USD30,000,000	–	100%	–	100%	Development of computer software and provision of Internet information services
Riot Games, Inc. ("Riot Games")	Established in September 2006 in the United States, private limited liability company	USD43,068,238	–	89.9%	–	91.8%	Development and operation of online games

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Note:

- (i) The amount represents share-based compensation expenses arising from grants of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries, which were deemed to be investment made by the Company into these subsidiaries.
- (ii) All these balances are unsecured and interest-free and their repayments are neither planned nor likely to occur in the foreseeable future.
- (iii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as consolidating subsidiaries of the Company.

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries as at 31 December 2012 represented current account balances maintained by the Company with certain subsidiaries. All balances are unsecured and interest-free and the balances are repayable on demand. As at 31 December 2012, the amounts due from subsidiaries were neither past due nor impaired.

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10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(c) Consolidation of a special purpose entity

In connection with the implementation of the share award scheme of the Group mentioned in Note 21(b), the Company has set up a special purpose entity ("Share Scheme Trust"), and its particulars are as follows:

Special purpose entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for a share award scheme which is set up for the benefits of eligible persons of the Scheme

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

For the year ended 31 December 2012, the Company contributed approximately RMB121,534,000 (2011: RMB314,064,000) to the Share Scheme Trust for financing its acquisition of the Company's shares.

(d) Disposal of a subsidiary

In October 2012, the Group entered into an agreement with a third party, a company listed in Shanghai Stock Exchange (the "Buyer"), to sell all its equity interest (65.79%) in Beijing Manyogu Information Technology Company Limited ("Manyogu") to the Buyer ("Manyogu Disposal"). Manyogu is a subsidiary of the Group, which is principally engaged in online game development in PRC.

Manyogu Disposal is, among others, subject to an approval by China Securities Regulatory Committee (the "CSRC") of the PRC and a successful non-public issuance of the shares of the Buyer for financing the transaction. As at 31 December 2012, the Manyogu Disposal had not been approved by the CSRC. Therefore, the Group continued to consolidate the financial statements of Manyogu and did not treat Manyogu as a disposal group and assets held for sale.

Pursuant to the agreement, the consideration for Manyogu Disposal is determined by certain multiple of the net profit to be generated by Manyogu in 2012 and the coming years.

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11 INTERESTS IN ASSOCIATES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Investments in associates (Note (a))		
– Listed shares	1,481,056	1,299,869
– Unlisted shares	4,829,057	2,464,158
	6,310,113	3,764,027
Investments in redeemable preference shares of associates (Note (b))	838,226	574,048
Loans to associates (Note (c))	161,927	95,299
	7,310,266	4,433,374

Note:

(a) Investments in associates

	2012 RMB'000	2011 RMB'000
At beginning of the year	3,764,027	1,070,633
Additions (Note (i), (ii), (iii) and (iv))	2,969,858	3,066,411
Decrease as a result of step-up business combinations	(43,391)	(257,585)
Share of losses of associates	(54,386)	(24,255)
Dividends received from associates	(32,798)	(20,000)
Disposal of associates	(98,338)	–
Impairment provision (Note (v))	(194,859)	(71,177)
At end of the year	6,310,113	3,764,027

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

Note:

- (i) In January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited (“ChinaVision”), representing approximately 8.0% of its then issued share capital, for a cash consideration of HKD247,760,000 (equivalent to approximately RMB201,578,000). ChinaVision is a company listed on the main board of the Stock Exchange, and is principally engaged in production and licensing of film and television programmes, and printed media and television advertising businesses. Since the Group has the right to nominate a director to the board of ChinaVision, ChinaVision is accounted for as an associate of the Group.
- (ii) In April 2012, the Group acquired 3,600,000 preference shares of Kakao Corp. (“Kakao”), a company principally engaged in developing and operating mobile messaging applications, representing approximately 13.8% of its then issued share capital, for a cash consideration of KRW72,000,000,000 (equivalent to approximately RMB401,053,000). Since the Group has significant influence in Kakao through its representative in the board of directors, Kakao is accounted for as an associate of the Group.
- (iii) In July 2012, the Group acquired certain equity shares of Epic Games, Inc. (“Epic Games”), representing approximately 48.4% of its then issued share capital, for a cash consideration of USD330,000,000 (equivalent to approximately RMB2,087,217,000). Epic Games is a US incorporated company principally engaged in developing game engine technology, as well as game titles for personal computers, consoles and mobile devices. Since the Group has the right to nominate directors to the board of Epic Games, Epic Games is accounted for as an associate of the Group.
- (iv) In addition to the above, the Group acquired some other associates or made additional investments in existing associates for an aggregate consideration of RMB280,010,000 during the year ended 31 December 2012. They are principally engaged in provision of online community services, online game development and other Internet-related businesses.
- (v) During the year ended 31 December 2012, the Group made impairment provision of RMB194,859,000 (2011: RMB71,177,000) for investments in associates based on the assessment with reference to business performance and recoverable value of associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of the associates who are listed companies, are shown in aggregate as follows:

	Assets	Liabilities	Revenues	Profits/(Losses)	Fair value of listed companies as at 31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012					
Listed companies:					
16.07% equity interest in eLong, Inc. ("eLong") (Note)	602,516	69,705	128,111	(1,123)	515,939
15.23% equity interest in Kingsoft Corporation Limited ("Kingsoft") (Note)	934,013	147,126	214,852	21,941	789,900
8.00% equity interest in ChinaVision (Note)	206,233	44,875	67,869	13,102	145,659
	<u>1,742,762</u>	<u>261,706</u>	<u>410,832</u>	<u>33,920</u>	<u>1,451,498</u>
Non-listed companies	<u>5,273,938</u>	<u>444,881</u>	<u>1,191,374</u>	<u>(88,306)</u>	
	<u>7,016,700</u>	<u>706,587</u>	<u>1,602,206</u>	<u>(54,386)</u>	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profits/(losses) RMB'000	Fair value of listed companies as at 31 December 2011 RMB'000
2011					
Listed companies:					
16.15% equity interest in eLong	576,958	33,065	55,452	(4,554)	524,178
15.28% equity interest in Kingsoft	871,194	115,218	70,055	14,159	419,441
	<u>1,448,152</u>	<u>148,283</u>	<u>125,507</u>	<u>9,605</u>	<u>943,619</u>
Non-listed companies	<u>2,931,836</u>	<u>467,678</u>	<u>1,373,702</u>	<u>(33,860)</u>	
	<u>4,379,988</u>	<u>615,961</u>	<u>1,499,209</u>	<u>(24,255)</u>	

Note:

Although the Group holds less than 20% equity interest in these investees, the Group treated them as associates because the Group is able to exercise its significant influence on these investees through its representatives on their respective boards of directors.

(b) Investments in redeemable preference shares of associates

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

During the year ended 31 December 2012, the Group also made impairment provision of RMB449,431,000 (2011: RMB94,000,000) for the investments in redeemable preference shares of certain associates based on the assessment with reference to business performance and recoverable value of associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(c) Loans to associates

As at 31 December 2012, the carrying amount of the loans to associates of the Group amounted to RMB161,927,000 (2011: RMB95,299,000). The aggregate principal amount of the loans to associates is RMB159,993,000, which is required to be repaid in 2 years (2011: RMB92,631,000). These loans bear interest rates of 4.0% to 6.0% or are interest-free.

The Group presented the loans to its associates as a component of "Interests in associates" in 2012. The comparative figures have also been reclassified to conform to the presentation. Such reclassification has no impact on the Group's net profit for the comparative year, as well as net assets of the Group as at 31 December 2011.

(d) Transactions with associates

During the year ended 31 December 2012, the Group entered into cooperation agreements with certain associates, pursuant to which the associates operate their games/applications on the Group's Internet platforms, which are available to the users of the Group. The Group pays the associates a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in their games/applications. In the whole arrangement, the Group acts as an agent and recognises the related revenue on a net basis. In 2012, the revenue recorded by the Group from the above cooperation with associates was not material.

As at 31 December 2012 and 2011, the Group was entitled to certain call options and conversion options associated with its interests in associates. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

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12 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
Assets			
At 31 December 2012			
Available-for-sale financial assets (Note 13)	–	5,632,590	5,632,590
Interests in associates (Note 11)	1,000,153	–	1,000,153
Accounts receivable (Note 15)	2,353,959	–	2,353,959
Deposits and other receivables	1,784,593	–	1,784,593
Term deposits (Note 17)	24,697,393	–	24,697,393
Restricted cash	2,520,232	–	2,520,232
Cash and cash equivalents (Note 18)	13,383,398	–	13,383,398
	<u>45,739,728</u>	<u>5,632,590</u>	<u>51,372,318</u>
Total			
At 31 December 2011			
Available-for-sale financial assets	–	4,343,602	4,343,602
Interests in associates	669,347	–	669,347
Accounts receivable	2,020,796	–	2,020,796
Deposits and other receivables	1,338,174	–	1,338,174
Term deposits	13,716,040	–	13,716,040
Restricted cash	4,942,595	–	4,942,595
Cash and cash equivalents	12,612,140	–	12,612,140
	<u>35,299,092</u>	<u>4,343,602</u>	<u>39,642,694</u>
Total			

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12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities			
At 31 December 2012			
Long-term notes payable (Note 26)	–	7,516,766	7,516,766
Long-term payables (Note 24)	–	1,508,578	1,508,578
Accounts payable (Note 22)	–	4,211,733	4,211,733
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	–	4,004,352	4,004,352
Borrowings (Note 25)	–	3,182,751	3,182,751
Total	–	<u>20,424,180</u>	<u>20,424,180</u>
At 31 December 2011			
Long-term notes payable	–	3,733,331	3,733,331
Long-term payables	–	1,859,808	1,859,808
Accounts payable	–	2,244,114	2,244,114
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	–	4,911,495	4,911,495
Borrowings	–	7,999,440	7,999,440
Derivative financial instruments	20,993	–	20,993
Total	<u>20,993</u>	<u>20,748,188</u>	<u>20,769,181</u>

Notes to the Consolidated Financial Statements

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12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company

	Loans and receivables RMB'000
Assets	
At 31 December 2012	
Amounts due from subsidiaries (Note 10(b))	4,906,150
Deposits and other receivables	24,424
Cash and cash equivalents (Note 18)	165,534
	<hr/>
Total	5,096,108
	<hr/> <hr/>
At 31 December 2011	
Amounts due from subsidiaries	1,260,180
Deposits and other receivables	2,702
Cash and cash equivalents	187,791
	<hr/>
Total	1,450,673
	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company (Cont'd)

	Other financial liabilities at amortised cost RMB'000
Liabilities	
At 31 December 2012	
Long-term notes payable (Note 26)	7,516,766
Amounts due to subsidiaries	2,308,028
Other payables and accruals	44,479
	<hr/>
Total	9,869,273
	<hr/> <hr/>
At 31 December 2011	
Long-term notes payable	3,733,331
Amounts due to subsidiaries	1,829,429
Other payables and accruals	86,528
	<hr/>
Total	5,649,288
	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
	RMB'000	RMB'000
At beginning of the year	4,343,602	4,126,878
Additions	556,564	1,487,645
Transfer to interests in associates	(31,139)	–
Gains/(losses) from changes in fair value	818,273	(1,234,921)
Impairment provision	(54,710)	(36,000)
	<u>5,632,590</u>	<u>4,343,602</u>

Available-for-sale financial assets include the following:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Listed equity interests:		
7.76% (2011: 7.76%) equity interest in Mail.ru Group Limited	3,519,038	2,658,527
4.60% (2011: 4.60%) equity interest in Huayi Bros. Media Group	396,150	439,518
3.98% (2011: 3.98%) equity interest in Hangzhou Shunwang Technology Co., Ltd.	135,866	129,961
5.01% (2011: 5.01%) equity interest in Media Asia Group Holdings Limited	32,046	90,788
	<u>4,083,100</u>	<u>3,318,794</u>
Market value of listed securities		
Unlisted equity interests	1,549,490	1,024,808
	<u>5,632,590</u>	<u>4,343,602</u>

As at 31 December 2012, there were certain call or conversion options embedded in available-for-sale financial assets invested by the Group. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

14 INVENTORIES

The inventories are mainly merchandise purchased for the Group's e-Commerce transactions business.

The cost of inventories is recognised as expense and included in "cost of merchandise sold" amounted to RMB4,066,513,000 for the year ended 31 December 2012.

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15 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
0 - 30 days	1,406,915	1,103,261
31 - 60 days	552,772	443,555
61 - 90 days	257,286	246,501
Over 90 days	136,986	227,479
	<u>2,353,959</u>	<u>2,020,796</u>

Accounts receivable were mainly denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Telecommunications operators	1,236,770	1,178,445
Online advertising customers	811,171	673,844
Others	306,018	168,507
	<u>2,353,959</u>	<u>2,020,796</u>

While there are no contractual requirements for the telecommunication operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

As at 31 December 2012, insignificant amounts of accounts receivable were past due. No impairment provision was considered necessary after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 31 December 2012.

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16 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Included in non-current assets:		
Prepayment for land use rights	–	258,237
Prepayment for purchase of building	243,754	510,425
Prepayment for licensed content	575,452	458,009
Loan to a jointly controlled entity	49,765	15,764
Running royalty fees for online games	96,993	945,135
Others	270,165	–
	<u>1,236,129</u>	<u>2,187,570</u>
Included in current assets:		
Running royalty fees for online games	1,640,229	405,915
Prepaid expenses	502,743	483,592
Rental deposits and other deposits	119,976	112,714
Interest receivables	353,202	143,370
Refundable value-added tax	588,903	270,028
Others	672,747	796,298
	<u>3,877,800</u>	<u>2,211,917</u>
	<u><u>5,113,929</u></u>	<u><u>4,399,487</u></u>

The directors of the Company considered that the carrying amounts of the prepayments, deposits and other assets approximated to their fair values as at 31 December 2012.

Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

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17 TERM DEPOSITS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2012 was 3.87% (2011: 2.95%).

An analysis of the Group's term deposits denominated in RMB and USD with initial term of over three months as at 31 December 2012 are listed as below:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Included in non-current assets:		
RMB term deposits	10,891,000	–
USD term deposits	718	–
	<u>10,891,718</u>	<u>–</u>
Included in current assets:		
RMB term deposits	10,448,140	13,714,364
USD term deposits	3,357,535	1,676
	<u>13,805,675</u>	<u>13,716,040</u>
	<u><u>24,697,393</u></u>	<u><u>13,716,040</u></u>

The directors of the Company considered that the carrying value of the term deposits with initial term of over three months approximated their fair value as at 31 December 2012. Term deposits with initial term of over three months were neither past due nor impaired.

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18 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances and cash	8,460,459	7,833,767	165,534	187,791
Term deposits and highly liquid investments with initial term within three months	4,922,939	4,778,373	—	—
	13,383,398	12,612,140	165,534	187,791
Maximum exposure to credit risk	13,383,018	12,611,379	165,534	187,791

The effective interest rates of the term deposits of the Group with initial term within three months for the year ended 31 December 2012 and 2011 were 2.21% and 1.16%, respectively.

Approximately RMB8,686,880,000 (2011: RMB6,694,164,000) of the total balance of the Group was denominated in RMB and it was deposited with banks in the PRC. The Company had no material cash balance denominated in RMB.

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME

The total authorised share capital of the Company comprises 10,000,000,000 ordinary shares (2011: 10,000,000,000 shares) with par value of HKD0.0001 per share (2011: HKD0.0001 per share).

As at 31 December 2012, the total number of issued ordinary shares of the Company was 1,853,333,230 shares (2011: 1,839,814,008 shares) which included 19,349,672 shares (2011: 17,809,839 shares) held under the share award scheme (Note 21(b)). They were all fully paid up.

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19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME (Cont'd)

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Total RMB'000
At 1 January 2012	1,839,814,008	198	1,950,876	(606,874)	1,344,200
Employee share option schemes:					
– value of employee services	–	–	95,099	–	95,099
– number of shares issued and proceeds received (Note (i))	9,295,222	1	238,492	–	238,493
Employee share award scheme:					
– value of employee services	–	–	676,699	–	676,699
– shares purchased for share award scheme (Note (ii))	–	–	–	(121,534)	(121,534)
– shares allotted for share award scheme (Note (iv))	4,378,400	–	–	–	–
– shares vested from share award scheme and transferred to the grantees (Note (iii))	–	–	(60,944)	60,944	–
Repurchase and cancellation of shares	(154,400)	–	(20,232)	–	(20,232)
At 31 December 2012	<u>1,853,333,230</u>	<u>199</u>	<u>2,879,990</u>	<u>(667,464)</u>	<u>2,212,725</u>

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19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME (Cont'd)

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Total RMB'000
At 1 January 2011	1,835,730,235	198	2,299,965	(258,137)	2,042,026
Employee share option schemes:					
– value of employee services	–	–	110,322	–	110,322
– number of shares issued and proceeds received	7,624,113	–	159,729	–	159,729
Employee share award scheme:	–	–	–	–	–
– value of employee services	–	–	517,870	–	517,870
– shares purchased for share award scheme	–	–	–	(438,714)	(438,714)
– shares allotted for share award scheme	4,045,360	–	–	–	–
– shares vested from share award scheme and transferred to the grantees	–	–	(89,977)	89,977	–
Repurchase and cancellation of shares	(7,585,700)	–	(1,047,033)	–	(1,047,033)
At 31 December 2011	<u>1,839,814,008</u>	<u>198</u>	<u>1,950,876</u>	<u>(606,874)</u>	<u>1,344,200</u>

Note:

- (i) During the year ended 31 December 2012, 9,295,222 Post-IPO options with exercise prices ranging from HKD3.6650 to HKD189.0000 were exercised.
- (ii) During the year ended 31 December 2012, the Share Scheme Trust acquired and withheld 651,901 ordinary shares of the Company for a total consideration of HKD149,378,000 (equivalent to approximately RMB121,534,000), which had been deducted from shareholders' equity.
- (iii) During the year ended 31 December 2012, the Share Scheme Trust transferred 3,490,468 ordinary shares of the Company (2011: 2,572,145 shares) to the share awardees upon vesting of the awarded shares.
- (iv) During the year ended 31 December 2012, the Company allotted 4,378,400 ordinary shares (2011: 4,045,360 shares) to the Share Scheme Trust for the purpose of granting awarded shares under the share award scheme.
- (v) As at 31 December 2012, included in "Shares held for share award scheme", 405,230 shares (2011: 1,970,840 shares) held by the Share Scheme Trust had not yet been granted to employees.
- (vi) The Group combined the presentation of share-based compensation reserve relating to the Company's share option schemes and share award scheme with the Company's share premium in 2012. The comparative figures have been reclassified to conform to the presentation of the current year. Such reclassification has no impact on the Group's net profit for the comparative year, as well as on the Group's net assets as at 31 December 2011.

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20 OTHER RESERVES

	Capital reserve (Note (i)) RMB'000	Available- for-sale financial assets RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund (Note (ii)) RMB'000	Reserve fund (Note (ii)) RMB'000	Share-based compensation reserve (Note (iii)) RMB'000	Total RMB'000
Balance at 1 January 2012	(771,798)	587,256	(31,583)	505,811	12,405	107,175	409,266
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	(357,618)	-	-	-	-	-	(357,618)
Value of employee services:							
- Employee share option schemes	-	-	-	-	-	59,431	59,431
- Employee share award schemes	-	-	-	-	-	45,292	45,292
Acquisition of additional equity interests in non-wholly owned subsidiaries	(240,676)	-	-	-	-	-	(240,676)
Profit appropriations to statutory reserves	-	-	-	65,265	-	-	65,265
Net gains from changes in fair value of available-for-sale financial assets	-	823,893	-	-	-	-	823,893
Currency translation differences	-	-	10,844	-	-	-	10,844
Balance at 31 December 2012	(1,370,092)	1,411,149	(20,739)	571,076	12,405	211,898	815,697
Balance at 1 January 2011	20,000	1,821,129	-	66,161	12,405	-	1,919,695
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	(670,985)	-	-	-	-	-	(670,985)
Non-controlling interests and deemed consideration arising from business combinations	(154,732)	-	-	-	-	-	(154,732)
Value of employee services:							
- Employee share option schemes	-	-	-	-	-	48,911	48,911
- Employee share award schemes	-	-	-	-	-	58,264	58,264
Acquisition of additional equity interests in non-wholly owned subsidiaries	23,919	-	-	-	-	-	23,919
Profit appropriations to statutory reserves	-	-	-	439,650	-	-	439,650
Net losses from changes in fair value of available-for-sale financial assets	-	(1,233,873)	-	-	-	-	(1,233,873)
Currency translation differences	-	-	(31,583)	-	-	-	(31,583)
Transfer from retained earnings	10,000	-	-	-	-	-	10,000
Balance at 31 December 2011	(771,798)	587,256	(31,583)	505,811	12,405	107,175	409,266

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20 OTHER RESERVES (Cont'd)

Note:

- (i) The capital reserve mainly arises from transactions undertaken with non-controlling interests.
- (ii) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

- (iii) This share-based compensation reserve arises from share option schemes and share award schemes adopted by non-wholly owned subsidiaries (Note 21(d)).

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21 SHARE-BASED PAYMENTS

(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 Post-IPO Option Scheme III, under which the directors 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. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

In respect of Post-IPO Option Scheme II and Post-IPO Option Scheme III, the exercise price must be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. 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.

(1) Movements in share options

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

	Pre-IPO Option Scheme		Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2012	-	-	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Granted	-	-	-	-	HKD248.8000	165,800	-	-	165,800
Exercised	-	-	HKD13.8099	(4,090,290)	HKD45.4858	(5,204,932)	-	-	(9,295,222)
Lapsed	-	-	HKD11.5430	(75,158)	HKD44.6799	(483,859)	-	-	(559,017)
At 31 December 2012	-	-	HKD11.1348	4,596,489	HKD65.4953	20,633,097	HKD158.5000	1,000,000	26,229,586
Exercisable as at 31 December 2012	-	-	HKD11.1348	4,596,489	HKD45.0314	9,931,574	-	-	14,528,063
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	-	-	-	-	HKD191.1886	771,175	-	-	771,175
Exercised	USD0.0935	(563,180)	HKD13.8888	(4,038,282)	HKD44.9126	(3,022,651)	-	-	(7,624,113)
Lapsed	USD0.1967	(13)	HKD6.0210	(5,544)	HKD64.9539	(387,604)	-	-	(393,161)
At 31 December 2011	-	-	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Exercisable as at 31 December 2011	-	-	HKD11.4611	8,173,937	HKD42.9814	8,996,582	-	-	17,170,519

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21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(1) Movements in share options (Cont'd)

During the year ended 31 December 2012, no share option (2011: Nil) was granted to any directors of the Company.

As a result of the options exercised during the year ended 31 December 2012, 9,295,222 ordinary shares (2011: 7,624,113 ordinary shares) were issued by the Company (Note 19). The weighted average price of the shares at the time these options were exercised was HKD231.04 (equivalent to approximately RMB187.98) per share (2011: HKD187.26 per share (equivalent to approximately RMB155.40 per share)).

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2012 and 31 December 2011 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		31 December 2012	31 December 2011
10 years commencing from the adoption date of 24 March 2004 (Post-IPO Option Scheme I)	HKD3.6650-HKD8.3500 HKD11.5500-HKD25.2600	2,362,976 2,233,513	4,164,319 4,597,618
		4,596,489	8,761,937
7 years commencing from the date of grant of options (Post-IPO Option Scheme II)	HKD31.7500-HKD43.5000 HKD45.5000-HKD90.3000 HKD128.4000-HKD248.8000	9,718,200 7,125,022 3,789,875	12,715,582 9,733,781 3,706,725
		20,633,097	26,156,088
10 years commencing from the date of grant of options(Post-IPO Option Scheme III)	HKD158.5000	1,000,000	1,000,000
		26,229,586	35,918,025

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21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair value of options

The directors of the Company have used the BS Model to determine the fair value of the options granted, which is to be expensed over the vesting period. The weighted average fair value of options granted during the year ended 31 December 2012 was HKD87.89 per option (equivalent to approximately RMB71.78 per option) (2011: HKD81.69 per option (equivalent to approximately RMB67.81 per option)).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model, which are summarised as below:

	2012	2011
Weighted average share price at the grant date	HKD248.80	HKD191.19
Risk free rate	0.40%	1.35%-2.31%
Dividend yield	0.36%	0.36%
Expected volatility (Note)	48.1%	49.10%-49.90%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

The outstanding share options as of 31 December 2012 were divided into two or five tranches on an equal basis as at their grant date. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

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21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme

The Company has adopted a share award scheme (the "Share Award Scheme"), which is managed by an independent trustee appointed by the Group (the "Trustee"). The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the years ended 31 December 2012 and 2011 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2012	1,970,840	15,838,999
Purchased and withheld (Note 19)	651,901	–
Allotted	4,378,400	–
Granted (Note)	(7,569,380)	7,569,380
Lapsed	973,469	(973,469)
Vested and exercised	–	(3,490,468)
	<u>405,230</u>	<u>18,944,442</u>
At 31 December 2012		5
Exercisable as at 31 December 2012		5
At 1 January 2011	80	13,562,734
Purchased and withheld	2,773,810	–
Allotted	4,045,360	–
Granted	(5,995,410)	5,995,410
Lapsed	1,147,000	(1,147,000)
Vested and exercised	–	(2,572,145)
	<u>1,970,840</u>	<u>15,838,999</u>
At 31 December 2011		14,406
Exercisable as at 31 December 2011		<u>14,406</u>

Note:

During the year ended 31 December 2012, no awarded share (2011: 35,000 awarded shares) was granted to any directors of the Company.

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21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2012 was HKD245.95 per share (equivalent to approximately RMB200.81 per share) (2011: HKD193.14 per share (equivalent to approximately RMB159.67 per share)).

The outstanding awarded shares as of 31 December 2012 were divided into two to five tranches on an equal basis as at their grant date. The first tranche can be exercised immediately or after a specified period ranging from six months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

In 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to a shareholders' resolution passed at the 2011 annual general meeting of the Company held on 11 May 2011. The Board may, at its absolute discretion, select any employees of the Group to participate in the EIS by subscribing for partnership interest at cash consideration. The total cash contribution by selected employees is limited to approximately RMB80,000,000. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS, ranging from 4 to 7 years. A wholly-owned subsidiary of the Company which acts as a general partner of the EIS manages and in essence, controls it. The EIS is therefore consolidated by the Company. In addition, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expenses of which for the years ended 31 December 2012 and 2011 were considered not material to the Group by the directors of the Company.

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21 SHARE-BASED PAYMENTS (Cont'd)

(d) Share options and restricted share award scheme adopted by non-wholly owned subsidiaries

Other than the above, certain non-wholly owned subsidiaries of the Company operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches.

The directors of the Company considered that the fair value of share options/restricted shares granted under the share-based compensation plans of the non-wholly owned subsidiaries, and the relevant share-based compensation expense charged into the consolidated income statement of the Group for the year ended 31 December 2012, are not significant to the Group.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 31 December 2012, the Expected Retention Rate was assessed to be 91% (31 December 2011: 91%).

22 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
0 - 30 days	3,573,610	1,514,155
31 - 60 days	430,408	351,587
61 - 90 days	176,116	108,337
Over 90 days	31,599	270,035
	<u>4,211,733</u>	<u>2,244,114</u>

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23 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Staff costs and welfare accruals	2,221,853	1,478,391
Marketing and administrative expense accruals	872,886	731,571
Prepayments received from customers and e-Commerce business (Note)	2,486,804	1,840,947
Running royalty fee for online games	43,999	315,045
Purchase consideration payables for business combinations	40,345	252,952
Others	635,562	395,375
	<u>6,301,449</u>	<u>5,014,281</u>

Note:

Prepayments received from e-Commerce business were recorded as restricted cash.

24 LONG-TERM PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Running royalty fee for online games	96,993	945,135
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary	1,028,603	670,985
Purchase consideration payables for business combinations	103,885	131,180
Others	279,097	112,508
	<u>1,508,578</u>	<u>1,859,808</u>

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25 BORROWINGS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	2,105,643	–
Included in current liabilities:		
RMB bank borrowings		
– Secured	15,000	2,958,720
– Unsecured	25,000	–
USD bank borrowings		
– Unsecured (Note (b))	942,825	4,410,630
USD Bonds		
– Unsecured	–	630,090
Current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	94,283	–
	1,077,108	7,999,440
	3,182,751	7,999,440

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25 BORROWINGS (Cont'd)

Note:

- (a) Unsecured long-term bank borrowings of carrying amount of RMB2,199,926,000 as at 31 December 2012 were denominated in USD. The aggregate principal amount was USD350,000,000 with interest rates of LIBOR plus 2.10% to 2.44% per annum.

The unsecured long-term bank borrowings were repayable as follows:

	As at 31 December 2012 RMB'000
Within 1 year	94,283
Between 1 and 2 years	188,565
Between 2 and 5 years	1,917,078
	<hr/> 2,199,926 <hr/>

- (b) Unsecured short-term bank borrowings of carrying amount of RMB942,825,000 as at 31 December 2012 were denominated in USD. The aggregate principal amount was USD150,000,000 with interest rates of LIBOR plus 1.20% to 1.75% per annum.

The fair value of the borrowings approximated to their carrying amounts as at 31 December 2012.

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26 LONG-TERM NOTES PAYABLE

On 12 December 2011, the Company issued long-term notes (the “2011 Notes”) with an aggregate principal amount of USD600,000,000 for general corporate purposes. The 2011 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2011 Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the “2012 Notes”) with an aggregate principal amount of USD600,000,000 for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2012 Notes are listed on the Stock Exchange and will mature on 5 March 2018.

The issue price of the 2012 Notes is 99.771% of the aggregate principal amount. The net proceeds from the issue of the 2012 Notes, after deduction of underwriting fees, discounts, commissions and other expenses payable in connection with the issue of the 2012 Notes, amounted to approximately USD593,826,000 (equivalent to approximately RMB3,767,767,000).

The fair value of the long-term notes payable at 31 December 2012 amounted to RMB7,950,353,000. The fair value is calculated using the market price of the senior notes on the balance sheet date.

27 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain IVAS and MVAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2012. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values.

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28 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2012 and 2011.

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	121,494	150,211
– to be recovered within 12 months	47,412	47,847
	<u>168,906</u>	<u>198,058</u>
Deferred income tax liabilities:		
– to be recovered after more than 12 months	(1,043,639)	(50,461)
– to be recovered within 12 months	(267,923)	(889,073)
	<u>(1,311,562)</u>	<u>(939,534)</u>

The movements of the deferred income tax assets/liabilities account were as follows:

	2012	2011
	RMB'000	RMB'000
At beginning of the year	(741,476)	(748,192)
Business combinations	(72,287)	(326,434)
Charge to income statement relating to origination and reversal of temporary differences (Note 37)	(519,359)	(10,299)
Withholding tax paid in related to the remittance of dividends	186,894	339,946
Credit to other comprehensive income	5,620	1,048
Exchange difference	(2,048)	2,455
At end of the year	<u>(1,142,656)</u>	<u>(741,476)</u>

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28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets were as follows:

	Deferred tax assets arising from intra-group software and technology sales RMB'000	Deferred tax assets arising from change in fair value of available-for- sale financial assets RMB'000	Total RMB'000
	(Note)		
At 1 January 2012	197,010	1,048	198,058
Charge to income statement relating to reversal of temporary differences	(35,421)	–	(35,421)
Credit to other comprehensive income	–	6,269	6,269
At 31 December 2012	161,589	7,317	168,906
At 1 January 2011	219,019	–	219,019
Credit to income statement relating to origination of temporary differences	32,832	–	32,832
Charge to income statement relating to reversal of temporary differences	(54,841)	–	(54,841)
Credit to other comprehensive income	–	1,048	1,048
At 31 December 2011	197,010	1,048	198,058

Note:

The deferred tax assets recognised are mainly related to the temporary differences arising from certain intra-group software and technology transfer transactions (Note 4.2). The credit to income statement represents tax impacts of originating temporary differences arising from these software and technology transfer, while the charge to income statement represents tax impacts of the reversal of the temporary differences as a result of the amortisation of the costs of these software and technology.

As at 31 December 2012, the Group did not recognise deferred income tax assets of RMB250,929,000 (2011: RMB347,355,000) in respect of cumulative tax losses amounting to RMB909,558,000 (2011: RMB1,102,264,000). These tax losses will expire from 2013 to 2017.

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28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax liabilities were as follows:

	Intangible assets acquired in business combinations at fair value RMB'000	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries RMB'000 (Note)	Deferred tax liabilities arising from change in fair value of available-for- sale financial assets RMB'000	Total RMB'000
At 1 January 2012	(111,818)	(827,716)	–	(939,534)
Business combinations	(72,287)	–	–	(72,287)
Credit/(charge) to income statement relating to origination and reversal of temporary differences	68,562	(552,500)	–	(483,938)
Withholding tax paid in related to the remittance of dividends	–	186,894	–	186,894
Charge to other comprehensive income	–	–	(649)	(649)
Exchange difference	(2,048)	–	–	(2,048)
At 31 December 2012	(117,591)	(1,193,322)	(649)	(1,311,562)
At 1 January 2011	(22,049)	(945,162)	–	(967,211)
Business combinations	(326,434)	–	–	(326,434)
Credit/(charge) to income statement relating to origination of temporary differences	234,210	(222,500)	–	11,710
Withholding tax paid in related to the remittance of dividends	–	339,946	–	339,946
Exchange difference	2,455	–	–	2,455
At 31 December 2011	(111,818)	(827,716)	–	(939,534)

Note:

According to applicable PRC tax regulations, withholding tax will be levied on the dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 (Note 37 (a)(vi)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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28 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2012, the Group recognised the relevant deferred tax liabilities of RMB1,193,322,000 (2011: RMB827,716,000) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB5,726,456,000 (2011: RMB4,264,270,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

29 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (Note 2.28(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred and cost of merchandise sold in deriving the revenues.

30 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current deposit, restricted cash, term deposits with initial term of three months or less, and term deposits with initial term of over three months.

31 OTHER (LOSSES)/GAINS, NET

	2012	2011
	RMB'000	RMB'000
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	(699,000)	(243,000)
Dividend income	407,069	15,851
Gains on disposal/deemed disposal of associates	7,451	708,486
Subsidies and tax rebates	226,148	101,406
Losses from derivative financial instruments	(20,767)	(96,790)
Donation to Tencent Charity Fund	(120,000)	(100,000)
Others	(84,801)	34,850
	<u>(283,900)</u>	<u>420,803</u>

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32 EXPENSES BY NATURE

	2012	2011
	RMB'000	RMB'000
Employee benefits expenses (Note)/(Note 33)	7,724,266	4,865,744
Content costs and agency fees	6,586,658	4,843,784
Cost of merchandise sold	4,066,513	–
Mobile and telecommunications charges and bandwidth and server custody fees	3,408,763	2,627,106
Promotion and advertising expenses	1,998,274	1,403,699
Depreciation of fixed assets (Note)/(Note 6)	1,879,604	1,207,732
Amortisation of intangible assets (Note 9)	732,620	726,221
Operating lease rentals in respect of office buildings	614,979	342,957
Travelling and entertainment expenses	315,820	224,748
Amortisation of land use rights (Note 8)	7,542	4,925
Auditor's remuneration		
– Audit services	15,050	10,760
– Non-audit services	7,107	7,575
Other expenses	1,608,873	867,064
	<u>28,966,069</u>	<u>17,132,315</u>

Note:

Research and development expenses for the year ended 31 December 2012 were RMB4,175,973,000 (2011: RMB2,684,821,000) which included employee benefit expenses of RMB3,358,077,000 (2011: RMB2,243,793,000) and depreciation of fixed assets of RMB449,642,000 (2011: RMB287,968,000). No research and development expenses had been capitalised for the years ended 31 December 2012 and 2011.

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33 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2012	2011
	RMB'000	RMB'000
Wages, salaries and bonuses	5,577,316	3,450,307
Welfare, medical and other expenses (Note)	504,404	247,109
Share-based compensation expenses	1,012,392	814,771
Contributions to pension plans (Note)	593,421	321,801
Training expenses	36,733	31,756
	<u>7,724,266</u>	<u>4,865,744</u>

Note:

All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contribution to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

	Percentage
Pension insurance	10 - 22%
Medical insurance	6 - 12%
Unemployment insurance	0 - 2%
Housing fund	10 - 12%

Notes to the Consolidated Financial Statements

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors and the chief executive officer ("CEO") of the Company for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	RMB'000
Fees – directors	2,600	2,053
Salaries, bonuses, allowances and benefits in kind	45,534	44,622
Contributions to pension plans	122	108
Share-based compensation expenses charged to income statement	18,021	20,474
	66,277	67,257
Number of directors		
– With emoluments	6	6
– Without emoluments	3	2
Number of directors	9	8

Notes to the Consolidated Financial Statements

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits	Contributions to pension plans	Share-based compensation expenses	Total RMB'000
		in kind RMB'000	RMB'000	RMB'000	
Ma Huateng (CEO)	–	20,617	61	–	20,678
Zhang Zhidong	–	14,741	61	–	14,802
Lau Chi Ping Martin	1,136	10,176	–	16,153	27,465
Iain Ferguson Bruce	651	–	–	1,001	1,652
Ian Charles Stone	447	–	–	774	1,221
Li Dong Sheng	366	–	–	93	459
Antonie Andries Roux (Note)	–	–	–	–	–
Jacobus Petrus Bekker	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	<u>2,600</u>	<u>45,534</u>	<u>122</u>	<u>18,021</u>	<u>66,277</u>

Note:

Mr Antonie Andries Roux passed away on 24 June 2012 and ceased to be a non-executive director of the Company on the same date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2011 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng (CEO)	–	20,615	54	–	20,669
Zhang Zhidong	–	14,741	54	–	14,795
Lau Chi Ping Martin	756	9,266	–	18,564	28,586
Iain Ferguson Bruce	567	–	–	1,059	1,626
Ian Charles Stone	365	–	–	806	1,171
Li Dong Sheng	365	–	–	45	410
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	<u>2,053</u>	<u>44,622</u>	<u>108</u>	<u>20,474</u>	<u>67,257</u>

During the year ended 31 December 2012, no options/awarded shares were granted to any executive, non-executive or independent non-executive directors of the Company (2011: 35,000 share options were granted to independent non-executive directors).

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2012 and 2011.

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34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Senior management's emoluments

Senior management includes directors, CEO, president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO whose details have been reflected in Note 34(a) is as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	116,931	100,298
Contributions to pension plans	706	567
Share-based compensation expenses charged to income statement	107,495	61,565
	<u>225,132</u>	<u>162,430</u>

The emoluments of the senior management fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
HKD7,000,001 - HKD16,000,000	7	12
HKD16,000,001 - HKD25,000,000	6	2
HKD25,000,001 - HKD34,000,000	1	1
HKD43,000,001 - HKD52,000,000	1	-

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35 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included two (2011: two) directors whose details have been reflected in the analysis presented Note 34. The emoluments paid/payable to the remaining three (2011: three) individuals during the year were as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	27,017	33,661
Contributions to pension plans	140	160
Share-based compensation expenses charged to income statement	55,251	21,378
	82,408	55,199

The emoluments of the above three individuals (2011: three) fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
HKD18,500,001 - HKD19,000,000	–	1
HKD22,000,001 - HKD22,500,000	–	1
HKD23,500,001 - HKD24,000,000	1	–
HKD25,000,001 - HKD25,500,000	–	1
HKD26,500,001 - HKD27,000,000	1	–
HKD50,500,001 - HKD51,000,000	1	–

36 FINANCE (COSTS)/INCOME, NET

	2012	2011
	RMB'000	RMB'000
Exchange (losses)/gains	(20,956)	108,042
Interest and related expenses	(326,562)	(72,537)
	(347,518)	35,505

Interest expenses mainly arose from the borrowings and long-term notes mentioned in Note 25 and Note 26, respectively.

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37 TAX EXPENSE

(a) Income tax

- (i) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in these jurisdictions for the years ended 31 December 2012 and 2011.

- (ii) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the year ended 31 December 2012. No such provision was made for the year ended 31 December 2011.

- (iii) PRC Corporate Income Tax (“CIT”)

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People’s Congress on 16 March 2007 (the “CIT Law”), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

The CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation of the CIT Law and which were entitled to preferential CIT rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the “Circular to Implementation of the Transitional Preferential Policies for the Corporate Income Tax”. Pursuant to this circular, the transitional CIT rates for the Group’s subsidiaries established in the Shenzhen Special Economic Zone or the Beijing High Technology Zone before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in CIT rates shall be based on the above transitional CIT rates for the respective years.

In 2011, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates in 2011 and 2012 were further reduced to 10%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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37 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

(iii) PRC Corporate Income Tax ("CIT") (Cont'd)

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

(iv) United States corporate income tax

United States corporate income tax provision was provided during the year ended 31 December 2012 for the entities within the Group which were incorporated in the United States with estimated assessable profits, at applicable tax rate of 36%. No such provision was provided for the year ended 31 December 2011.

(v) Corporate income tax in other countries

Corporate income tax provision has been provided for the year ended 31 December 2012 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35%. No such provision was made for the year ended 31 December 2011.

(vi) PRC withholding tax

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

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37 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

The income tax expense of the Group for the years ended 31 December 2012 and 2011 are analysed as follows:

	2012	2011
	RMB'000	RMB'000
Current tax	1,746,804	1,863,939
Deferred income tax (Note 28)	519,359	10,299
	<u>2,266,163</u>	<u>1,874,238</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended 31 December 2012 (2011: 24%), being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	2012	2011
	RMB'000	RMB'000
Profit before income tax	15,051,015	12,099,069
Add: Share of losses of associates and jointly controlled entities	80,880	189,986
	<u>15,131,895</u>	<u>12,289,055</u>
Tax calculated at a tax rate of 25% (2011: 24%)	3,782,974	2,949,373
Effects of different tax rates applicable to different subsidiaries of the Group	(2,027,510)	(1,087,518)
Effects of tax holiday on assessable profits of subsidiaries	(308,014)	(464,371)
Income not subject to tax	(110,096)	(13,752)
Expenses not deductible for tax purposes	275,440	186,196
Withholding tax on earnings expected to be remitted by PRC subsidiaries (Note 28)	552,500	222,500
Utilisation of previously unrecognised tax losses	(75,527)	(23,276)
Unrecognised deferred income tax assets	162,693	167,330
Others	13,703	(62,244)
	<u>2,266,163</u>	<u>1,874,238</u>
Income tax expense	<u>2,266,163</u>	<u>1,874,238</u>

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37 TAX EXPENSE (Cont'd)

(b) Value-added tax, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT") (Note)	6-17%	Sales value of goods sold and services fee income, offsetting by VAT on purchases
	3%	Sales value of goods sold and services fee income
Business tax ("BT")	3-5%	Services fee income
City construction tax	7%	Net VAT and BT payable amount
Construction fee for cultural undertakings	3%	Advertising income
Educational surcharge	5%	Net VAT and BT payable amount

Note:

Pursuant to the circulars issued by the Ministry of Finance and the State Administration of Taxation, the VAT pilot programme was introduced in January 2012, replacing BT regime with VAT system for certain business sectors in some cities in China. In this regard, some subsidiaries of the Group have been transformed from BT payers to VAT payers in 2012, and the applicable tax rate is 3-6%.

38 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2012 is dealt with in the financial statements of the Company to the extent of RMB3,263,692,000 (2011: RMB1,279,795,000).

39 EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	<u>12,731,871</u>	<u>10,203,083</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,827,886</u>	<u>1,818,966</u>
Basic EPS (RMB per share)	<u>6.965</u>	<u>5.609</u>

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39 EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the year ended 31 December 2012, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	<u>12,731,871</u>	<u>10,203,083</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,827,886	1,818,966
Adjustments for share options (thousand shares)	23,441	28,897
Adjustments for awarded shares (thousand shares)	<u>11,963</u>	<u>10,683</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,863,290</u>	<u>1,858,546</u>
Diluted EPS (RMB per share)	<u>6.833</u>	<u>5.490</u>

40 DIVIDENDS

The dividends paid in 2012 amounted to RMB1,107,889,000 (2011: RMB838,290,000), which excluded the dividends of RMB10,684,000 (2011: RMB6,720,000) related to the shares held by the Share Scheme Trust for the purposes of the Share Award Scheme.

A final dividend in respect of the year ended 31 December 2012 of HKD1.00 per share (2011: HKD0.75 per share) was proposed pursuant to a resolution passed by the Board on 20 March 2013 and subject to the approval of the shareholders at the annual general meeting to be held on 15 May 2013. The consolidated financial statements do not reflect this dividends payable.

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41 BUSINESS COMBINATIONS

(a) The Level Up! Acquisition

Pursuant to an agreement dated 19 January 2012, in July 2012, the Group acquired 49% equity interest in Level Up! International Holdings Pte. Ltd. (“Level Up!”), a publisher and operator of online games, from MIH LatAm Holdings B.V. (the “Vendor”) at a consideration of USD26,950,000 (equivalent to approximately RMB170,456,000) (the “Level Up! Acquisition”). The Level Up! Acquisition aligns well with the Company’s long term strategy to cooperate with leading local Internet companies in emerging markets through strategic investment and partnership. According to the terms of the Level Up! Acquisition, the Group also has a currently exercisable call option to acquire additional 18% equity interest (total 67% equity interest together with the aforesaid 49% interest) in Level Up! at a consideration of USD9,900,000 (equivalent to approximately RMB62,615,000) and its relevant interest accrued from the closing date of Level Up! Acquisition to the date of the exercise of the option. Upon completion of the Level Up! Acquisition, Level Up! was accounted for as a subsidiary of the Group. The Vendor is an indirect wholly-owned subsidiary of Naspers Limited, which is the ultimate substantial shareholder of the Company. Therefore, the Level Up! Acquisition was a related parties transaction. In addition, the Level Up! Acquisition was also a connected transaction under the Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Goodwill of RMB133,928,000 was recognised as a result of the Level Up! Acquisition based on the finalisation of its fair value assessment. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining operations of the Group and Level Up!. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interests in Level Up! at fair value on the closing date of Level Up! Acquisition, which was estimated by making reference to the purchase price paid for the acquisition. The following table summarises the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed or recognised as at the closing date of the transaction.

	RMB'000
Cash consideration paid	170,456
Fair value of the non-controlling interests	177,612
	348,068
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	86,897
Fixed assets	18,887
Intangible assets acquired	224,649
Current liabilities	(58,416)
Deferred income tax liabilities	(57,877)
Total identifiable net assets	214,140
Goodwill	133,928
	348,068
Acquisition-related costs (Note)	1,018

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41 BUSINESS COMBINATIONS (Cont'd)

(a) The Level Up! Acquisition (Cont'd)

Note:

The acquisition-related costs were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2012.

The revenues and net profit contributed by Level Up! from 1 January 2012 or its acquisition date to 31 December 2012 were not material to the Group.

(b) Acquisitions of equity interests in five companies

During the year ended 31 December 2012, the Group acquired the entire equity interests in two companies. One of them is engaged in providing massively multi-players online game information and the other is engaged in developing utility programs on mobile device. In addition, the Group acquired 51% equity interest in a company engaged in book publication and online reading services.

The Group acquired certain additional interest in an associate engaged in e-Commerce business and held 58% equity interest in this company after the acquisition. The Group also acquired additional 60% equity interest in another associate engaged in developing mobile browser and held the entire equity interest in this company after the acquisition. The deemed disposal gains/(losses) derived from these step-up business combinations were not significant.

The considerations and the allocation of such considerations to the fair value of the identifiable net assets acquired and goodwill recognised as at the respective dates of these acquisitions are as follows:

	RMB'000
Cash consideration paid	212,264
Fair value of the interests previously held by the Group	38,240
Fair value of the non-controlling interests	71,569
	<hr/>
	322,073
	<hr/>
Fair value of identifiable net assets acquired	137,934
Goodwill	184,139
	<hr/>
	322,073
	<hr/>

The revenues and net profit contributed by these subsidiaries from 1 January 2012 or their respective acquisition dates to 31 December 2012 were not material to the Group.

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42 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to net cash inflow from operating activities:

	2012	2011
	RMB'000	RMB'000
Profit for the year	12,784,852	10,224,831
Adjustments for:		
Income tax expense	2,266,163	1,874,238
Gains on disposal/deemed disposal of associates	(7,451)	(708,486)
Dividend income	(407,069)	–
Depreciation of fixed assets and investment properties	1,880,078	1,208,261
Amortisation of intangible assets	732,620	726,221
Amortisation of land use rights	7,542	4,925
(Gains)/losses on disposals of fixed assets	(1,200)	1,694
Losses from derivative financial instruments	20,767	96,790
Interest income	(835,671)	(468,990)
Equity-settled share-based compensation expenses	904,792	732,691
Share of losses of associates	54,386	24,255
Share of losses of jointly controlled entities	26,494	165,731
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	699,000	243,000
Exchange losses/(gains)	20,956	(108,042)
Changes in working capital:		
Accounts receivable	(266,551)	(250,693)
Inventories	(300,896)	–
Prepayments, deposits and other receivables	(2,254,540)	(2,630,368)
Accounts payable	1,689,096	827,573
Other payables and accruals	1,786,118	2,873,982
Other tax liabilities	396,518	(45,689)
Restricted cash	(640,213)	(1,850,652)
Deferred revenue	3,098,443	2,253,098
Net Cash generated from operating activities	<u>21,654,234</u>	<u>15,194,370</u>

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42 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to net cash inflow from operating activities: (Cont'd)

In the Consolidated Statement of Cash Flows, proceeds from disposals of fixed assets comprise:

	2012	2011
	RMB'000	RMB'000
Net book amount	2,900	2,293
Gains/(losses) on disposals of fixed assets	1,200	(1,694)
	<u>4,100</u>	<u>599</u>
Proceeds from disposals of fixed assets	<u>4,100</u>	<u>599</u>

(b) Major non-cash transactions

There were no material non-cash transactions for the year ended 31 December 2012.

43 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

44 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2012 and 2011 are analysed as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted:		
Construction/purchase of building and purchase of land use rights	446,869	463,046
Purchase of other fixed assets	142,226	132,260
Capital investment in investees	868,377	816,910
	1,457,472	1,412,216
Authorised but not contracted:		
Construction/purchase of building and purchase of land use rights	1,109,244	1,186,867
Capital investment in investees	450,400	651,927
	1,559,644	1,838,794
	3,017,116	3,251,010

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted:		
Not later than one year	533,308	520,396
Later than one year and not later than five years	1,359,686	1,462,788
Later than five years	288,003	286,135
	2,180,997	2,269,319

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

44 COMMITMENTS (Cont'd)

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted:		
Not later than one year	1,051,632	596,031
Later than one year and not later than five years	1,299,057	768,291
	<u>2,350,689</u>	<u>1,364,322</u>

45 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 11 (loans to associates and transactions with associates), Note 16 (loan to a jointly controlled entity), Note 21 (Share options and share award scheme), Note 34 (Directors' and senior management's emoluments) and Note 41 (Business combination) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2012, and no other material related parties' balances as at 31 December 2012.

46 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2012 to the approval date of the consolidated financial statements by the Board on 20 March 2013.

Independent Auditor's Report



羅兵咸永道

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 72 to 188*, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

* being pages F-238 to F-354 of this Offering Circular

Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14 March 2012

Consolidated Statement of Financial Position

As at 31 December 2011

		As at 31 December	
		2011	2010
		RMB'000	RMB'000
	Note		
ASSETS			
Non-current assets			
Fixed assets	6	5,884,952	3,292,828
Construction in progress	7	158,656	386,943
Investment properties	8	21,871	37,229
Land use rights	9	230,915	229,890
Intangible assets	10	3,779,976	572,981
Investment in associates	12	4,338,075	1,070,633
Investment in jointly controlled entities	13	61,903	74,542
Deferred income tax assets	30	198,058	219,019
Available-for-sale financial assets	15	4,343,602	4,126,878
Prepayments, deposits and other assets	17	2,282,869	445,430
		<u>21,300,877</u>	<u>10,456,373</u>
Current assets			
Accounts receivable	16	2,020,796	1,715,412
Prepayments, deposits and other assets	17	2,211,917	487,872
Term deposits with initial term of over three months	18	13,716,040	11,725,743
Restricted cash	24, 27	4,942,595	1,036,457
Cash and cash equivalents	19	12,612,140	10,408,257
		<u>35,503,488</u>	<u>25,373,741</u>
Total assets		<u><u>56,804,365</u></u>	<u><u>35,830,114</u></u>

Consolidated Statement of Financial Position

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	RMB'000	RMB'000
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	20	198	198
Share premium	20	123,021	1,100,302
Shares held for share award scheme	20	(606,874)	(258,137)
Share-based compensation reserve	20	1,935,030	1,199,663
Other reserves	21	302,091	1,919,695
Retained earnings		26,710,368	17,795,225
		28,463,834	21,756,946
Non-controlling interests		624,510	83,912
Total equity		29,088,344	21,840,858
LIABILITIES			
Non-current liabilities			
Long-term notes payable	28	3,733,331	–
Deferred income tax liabilities	30	939,534	967,211
Long-term payables	26	1,859,808	–
		6,532,673	967,211

Consolidated Statement of Financial Position

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	RMB'000	RMB'000
Current liabilities			
Accounts payable	23	2,244,114	1,380,464
Other payables and accruals	24	5,014,281	2,997,808
Derivative financial instruments	25	20,993	17,964
Short-term borrowings	27	7,999,440	5,298,947
Current income tax liabilities		708,725	341,103
Other tax liabilities	39(b)	179,499	225,188
Deferred revenue	29	5,016,296	2,760,571
		<u>21,183,348</u>	<u>13,022,045</u>
Total liabilities		<u>27,716,021</u>	<u>13,989,256</u>
Total equity and liabilities		<u>56,804,365</u>	<u>35,830,114</u>
Net current assets		<u>14,320,140</u>	<u>12,351,696</u>
Total assets less current liabilities		<u>35,621,017</u>	<u>22,808,069</u>

The notes on pages 86* to 188 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 188** were approved by the Board of Directors on 14 March 2012 and were signed on its behalf.

* being pages F-252 to F-354 of this Offering Circular

** being pages F-238 to F-354 of this Offering Circular

Statement of Financial Position - The Company

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Fixed assets		243	342
Intangible assets		4,958	4,809
Investments in subsidiaries	11(a)	5,782,381	2,834,852
Contribution to Share Scheme Trust	11(c)	896	287
		<u>5,788,478</u>	<u>2,840,290</u>
Current assets			
Amounts due from subsidiaries		1,260,180	708,074
Prepayments, deposits and other receivables		3,706	4,584
Term deposits with initial term of over three months		–	635
Cash and cash equivalents	19	187,791	237,525
		<u>1,451,677</u>	<u>950,818</u>
Total assets		<u><u>7,240,155</u></u>	<u><u>3,791,108</u></u>
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	20	198	198
Share premium	20	123,021	1,100,302
Shares held for share award scheme	20	(606,874)	(258,137)
Share-based compensation reserve		1,827,855	1,199,663
Retained earnings/(accumulated deficit)		246,667	(140,999)
Total equity		<u><u>1,590,867</u></u>	<u><u>1,901,027</u></u>

Statement of Financial Position - The Company

As at 31 December 2011

		As at 31 December	
		2011	2010
		RMB'000	RMB'000
	Note		
LIABILITIES			
Non-current liabilities			
Long-term notes payable	28	<u>3,733,331</u>	<u>–</u>
Current liabilities			
Amounts due to subsidiaries	11(b)	1,829,429	1,833,802
Other payables and accruals		<u>86,528</u>	<u>56,279</u>
		<u>1,915,957</u>	<u>1,890,081</u>
Total liabilities		<u>5,649,288</u>	<u>1,890,081</u>
Total equity and liabilities		<u>7,240,155</u>	<u>3,791,108</u>
Net current liabilities		<u>(464,280)</u>	<u>(939,263)</u>
Total assets less current liabilities		<u>5,324,198</u>	<u>1,901,027</u>

The notes on pages 86 to 188* are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 188** were approved by the Board of Directors on 14 March 2012 and were signed on its behalf.

* being pages F-252 to F-354 of this Offering Circular

** being pages F-238 to F-354 of this Offering Circular

Consolidated Income Statement

For the year ended 31 December 2011

	Note	Year ended 31 December	
		2011 RMB'000	2010 RMB'000
Revenues			
Internet value-added services		23,042,758	15,482,301
Mobile and telecommunications value-added services		3,270,841	2,715,931
Online advertising		1,992,216	1,372,522
Others		190,257	75,277
	5	28,496,072	19,646,031
Cost of revenues	31, 34	(9,928,308)	(6,320,200)
Gross profit		18,567,764	13,325,831
Interest income	32	468,990	255,922
Other gains, net	33	420,803	38,056
Selling and marketing expenses	34	(1,920,853)	(945,370)
General and administrative expenses	34	(5,283,154)	(2,836,226)
Operating profit		12,253,550	9,838,213
Finance income/(costs), net	38	35,505	(838)
Share of (losses)/profit of associates		(24,255)	72,359
Share of (losses)/profit of jointly controlled entities		(165,731)	3,399
Profit before income tax		12,099,069	9,913,133
Income tax expense	39(a)	(1,874,238)	(1,797,924)
Profit for the year		10,224,831	8,115,209
Attributable to:			
Equity holders of the Company		10,203,083	8,053,625
Non-controlling interests		21,748	61,584
		10,224,831	8,115,209

Consolidated Income Statement

For the year ended 31 December 2011

		Year ended 31 December	
		2011	2010
	Note	RMB'000	RMB'000
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– basic	41(a)	<u><u>5.609</u></u>	<u><u>4.432</u></u>
– diluted	41(b)	<u><u>5.490</u></u>	<u><u>4.328</u></u>
Dividend per share			
Final dividend proposed	42	<u><u>HKD0.75</u></u>	<u><u>HKD0.55</u></u>

The notes on pages 86 to 188* are an integral part of these consolidated financial statements.

* being pages F-252 to F-354 of this Offering Circular

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	10,224,831	8,115,209
Other comprehensive income, net of tax:		
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(1,233,873)	1,821,129
Currency translation differences	(34,256)	—
	(1,268,129)	1,821,129
Total comprehensive income for the year	8,956,702	9,936,338
Attributable to:		
Equity holders of the Company	8,937,627	9,874,754
Non-controlling interests	19,075	61,584
	8,956,702	9,936,338

The notes on pages 86 to 188* are an integral part of these consolidated financial statements.

* being pages F-252 to F-354 of this Offering Circular

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares		Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non- controlling interests RMB'000	
			held for	Share-based					
			share award scheme RMB'000	compensation reserve RMB'000					
Balance at 1 January 2011	198	1,100,302	(258,137)	1,199,663	1,919,695	17,795,225	21,756,946	83,912	21,840,858
Comprehensive income									
Profit for the year	-	-	-	-	-	10,203,083	10,203,083	21,748	10,224,831
Other comprehensive income:									
- net losses from changes in fair value of available-for-sale financial assets	-	-	-	-	(1,233,873)	-	(1,233,873)	-	(1,233,873)
- currency translation differences	-	-	-	-	(31,583)	-	(31,583)	(2,673)	(34,256)
Total comprehensive income for the year	-	-	-	-	(1,265,456)	10,203,083	8,937,627	19,075	8,956,702
Total contributions by and distributions to owners of the Company recognised directly in equity									
Capital injection	-	-	-	-	-	-	-	9,800	9,800
Employee share option schemes:									
- value of employee services	-	-	-	159,233	-	-	159,233	-	159,233
- proceeds from shares issued	-	159,729	-	-	-	-	159,729	-	159,729
Employee share award scheme:									
- value of employee services	-	-	-	576,134	-	-	576,134	-	576,134
- shares purchased for share award scheme	-	-	(438,714)	-	-	-	(438,714)	-	(438,714)
- vesting of awarded shares	-	(89,977)	89,977	-	-	-	-	-	-

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit appropriations to statutory reserves	-	-	-	-	439,650	(439,650)	-	-	-
Repurchase and cancellation of shares	-	(1,047,033)	-	-	-	-	(1,047,033)	-	(1,047,033)
Dividend (Note 42)	-	-	-	-	-	(838,290)	(838,290)	(56,531)	(894,821)
Transfer	-	-	-	-	10,000	(10,000)	-	-	-
Total contributions by and distributions to owners of the Company for the year	-	(977,281)	(348,737)	735,367	449,650	(1,287,940)	(1,428,941)	(46,731)	(1,475,672)
Non-controlling interests and deemed consideration arising from business combinations (Note 43(a) and (b))	-	-	-	-	(154,732)	-	(154,732)	581,725	426,993
Changes in equity interests in a subsidiary without change of control	-	-	-	-	23,919	-	23,919	(13,471)	10,448
Recognition of financial liabilities in respect of the put options granted to non-controlling interests (Note 43(a))	-	-	-	-	(670,985)	-	(670,985)	-	(670,985)
Total transactions with owners for the year	-	(977,281)	(348,737)	735,367	(352,148)	(1,287,940)	(2,230,739)	521,523	(1,709,216)
Balance at 31 December 2011	198	123,021	(606,874)	1,935,030	302,091	26,710,368	28,463,834	624,510	29,088,344

The notes on pages 86 to 188* are an integral part of these consolidated financial statements.

* being pages F-252 to F-354 of this Offering Circular

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								
	Share capital	Share premium	Shares held for share award scheme	Share-based compensation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010	197	1,244,425	(123,767)	703,563	(166,364)	10,520,453	12,178,507	120,146	12,298,653
Comprehensive income									
Profit for the year	-	-	-	-	-	8,053,625	8,053,625	61,584	8,115,209
Other comprehensive income:									
- net gains from changes in fair value of available-for-sale financial assets	-	-	-	-	1,821,129	-	1,821,129	-	1,821,129
Total comprehensive income for the year	-	-	-	-	1,821,129	8,053,625	9,874,754	61,584	9,936,338
Total contributions by and distributions to owners of the Company recognised directly in equity									
Employee share option schemes:									
- value of employee services	-	-	-	139,621	-	-	139,621	-	139,621
- proceeds from shares issued	1	199,248	-	-	-	-	199,249	-	199,249
Employee share award scheme:									
- value of employee services	-	-	-	356,479	-	-	356,479	-	356,479
- shares purchased for share award scheme	-	-	(167,519)	-	-	-	(167,519)	-	(167,519)
- vesting of awarded shares	-	(33,149)	33,149	-	-	-	-	-	-

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Profit appropriations to statutory reserves	-	-	-	-	8,237	(8,237)	-	-	-
Dividend	-	-	-	-	-	(639,264)	(639,264)	(66,723)	(705,987)
Repurchase and cancellation of shares	-	(310,222)	-	-	-	-	(310,222)	-	(310,222)
Total contributions by and distributions to owners of the Company for the year	1	(144,123)	(134,370)	496,100	8,237	(647,501)	(421,656)	(66,723)	(488,379)
Reversal of the liabilities in respect of put options granted to non-controlling interests owners	-	-	-	-	94,246	-	94,246	-	94,246
Acquisition of additional interests in a subsidiary	-	-	-	-	154,198	(123,103)	31,095	(31,095)	-
Transfer	-	-	-	-	8,249	(8,249)	-	-	-
Total transactions with owners for the year	1	(144,123)	(134,370)	496,100	264,930	(778,853)	(296,315)	(97,818)	(394,133)
Balance at 31 December 2010	198	1,100,302	(258,137)	1,199,663	1,919,695	17,795,225	21,756,946	83,912	21,840,858

The notes on pages 86 to 188* are an integral part of these consolidated financial statements.

* being pages F-252 to F-354 of this Offering Circular

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

		Year ended 31 December	
		2011	2010
	Note	RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	44(a)	15,194,370	13,191,728
Income tax paid		(1,836,263)	(872,435)
Net cash flows generated from operating activities		13,358,107	12,319,293
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		(1,444,442)	(268,852)
Purchase of fixed assets, construction in progress and investment properties		(4,046,246)	(1,488,220)
Proceeds from disposals of fixed assets	44(a)	599	1,574
Payments for investment in associates		(3,427,363)	(511,967)
Payments for investment in jointly controlled entities		(194,915)	(71,143)
Purchase/Prepayment of intangible assets		(788,375)	(301,831)
Payments for land use rights		(5,950)	(456,555)
Purchase of available-for-sale financial assets		(1,706,752)	(2,179,096)
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries		(23,919)	(118,260)
Proceeds from disposal of equity interests in a subsidiary without change of control		10,448	–
Proceeds from the redemption of held-to-maturity investments		–	341,410
Receipt from the repayments of term deposits with initial term of over three months		5,989,298	114,662
Payments for term deposits with initial term of over three months		(7,979,595)	(6,530,237)
Payment for restricted cash		(2,055,486)	(836,457)
(Loan advanced)/Repayment of loan to associates and jointly controlled entities		(117,115)	54,700
Interest received		415,055	219,937
Dividend received		20,000	15,338
Net cash flows used in investing activities		(15,354,758)	(12,014,997)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from short-term borrowings	6,682,837	5,298,947
Repayment of short-term borrowings	(3,765,941)	(202,322)
Payment for derivative financial instruments in relation to short-term borrowings	(93,761)	–
Net proceeds from issuance of long-term notes	3,760,928	–
Proceeds from issuance of ordinary shares	159,729	199,249
Payments for repurchase of shares	(1,047,033)	(310,222)
Payment for purchase of shares for share award scheme	(438,714)	(167,519)
Proceeds from capital injection from non-controlling interests	9,800	–
Dividends paid to the Company's shareholders	(838,290)	(639,264)
Dividends paid to non-controlling interests	(56,531)	(66,723)
	<hr/>	<hr/>
Net cash flows generated from financing activities	4,373,024	4,112,146
	<hr/>	<hr/>
Net increase in cash and cash equivalents	2,376,373	4,416,442
Cash and cash equivalents at beginning of the year	10,408,257	6,043,696
Exchange losses on cash and cash equivalents	(172,490)	(51,881)
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	12,612,140	10,408,257
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 86 to 188* are an integral part of these consolidated financial statements.

* being pages F-252 to F-354 of this Offering Circular

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY 1-1111, Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the provision of Internet value-added services (“IVAS”), mobile and telecommunications value-added services (“MVAS”) and online advertising services to users in the People’s Republic of China (the “PRC”).

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited (“Tencent Computer”), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the “Registered Shareholders”).

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited (“Tencent Technology”), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Under a series of contractual arrangements (collectively, “Structure Contracts”) entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, and recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things, the rights to:

- receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- ensure that Tencent Technology own the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer without making any payment; and
- control the management and financial and operating policies of Tencent Computer.

As a result, Tencent Computer is accounted for as a subsidiary and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management’s belief it best reflected the substance of the formation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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1 GENERAL INFORMATION (Cont'd)

Similar Structure Contracts were also executed for other PRC operating companies similar to Tencent Computer subsequent to 2000. All these PRC operating companies were treated as subsidiaries of the Company and their financial statements have also been consolidated by the Company.

The consolidated financial statements of the Group have been approved for issue by the board of directors of the Company (the "Board") on 14 March 2012.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The following revised standards, amendments and interpretation to existing standards, have been published and are mandatory for the financial year beginning 1 January 2011, but are not currently relevant to the Group.

- | | |
|-------------------------|---|
| • IAS 32 (Amendment) | Classification of Rights Issue |
| • Amendment to IFRIC 14 | Prepayments of A Minimum Funding Requirement |
| • IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |
| • IAS 24 (Revised) | Related Party Disclosures |

The third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by the International Accounting Standards Board ("IASB"), certain of which were effective in 2011. Management has considered that these amendments have no material impact on the Group's financial statements for the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

The following new standards have been issued but are not effective for the financial year beginning 1 January 2011, and have not been early adopted by the Group.

- IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2015.
- IFRS 10 'Consolidated Financial Statements' builds on the existing principles by identifying the concept of control as the determining factor for whether an entity should be included in the consolidated financial statements of the parent company. The standard provides additional guidance for the determination of control where it is difficult to assess. The Group is yet to assess the full impact of IFRS 10 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.
- IFRS 11 'Joint Arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess the full impact of IFRS 11 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.
- IFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of IFRS 12 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

- IFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess the full impact of IFRS 13 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting rights but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(b) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount within "Other gains, net" in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for using the equity method, which is similar to that for associates in note (b) above. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entities and its carrying value and recognises the amount within "Other gains, net" in the income statement.

(d) Business combinations

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (Note 2.8).

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(d) Business combinations (Cont'd)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For a business combination achieved in stages, the Group applies acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement. Goodwill is calculated by deducting the fair value of identifiable net assets from the fair value of the previously held interest, the consideration and non-controlling interests.

(e) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(f) Investment in an associate/a jointly controlled entity achieved in stages

The cost of an associate/a jointly controlled entity acquired in stages is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when the associate/jointly controlled entity became an associate/a jointly controlled entity. A gain or loss on remeasurement of the previously held interest is taken to the income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Consolidation (Cont'd)

(g) Partial disposals

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement where appropriate.

(h) Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 11(c)), a controlled special purpose entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Fixed assets

All fixed assets are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.5 Fixed assets (Cont'd)

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains, net" in the income statement.

2.6 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 50 years.

Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amount if its carrying amounts are greater than their estimated recoverable amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the income statement on a straight-line basis over the remaining period of the lease or capitalised in construction in progress upon completion of construction.

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Other intangible assets

Other intangible assets mainly include licence, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are being amortised over their estimated useful lives (generally three to seven years).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Shares held for share award scheme

The consideration paid by the Share Scheme Trust (as defined in Note 11(c)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme", with a corresponding adjustment to share premium.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets (Cont'd)

(a) Classification (Cont'd)

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are classified as "Accounts receivable", "Deposits and other receivables", "Term deposits with initial term of over three months", "Restricted cash" and "Cash and cash equivalents" in the statement of financial position.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period which are classified as current assets.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Financial assets (Cont'd)

(b) Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “Financial assets at fair value through profit or loss” category are presented in the income statement within “Other gains, net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of “Other gains, net” when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group’s right to receive payments is established.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Impairment of financial assets (Cont'd)

- (b) Assets classified as available-for-sale financial assets

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During the year ended 31 December 2011, the Group did not hold any derivative instruments designated as a hedging instrument but held certain derivative instruments which did not qualify for hedge accounting. The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within "Other gains, net".

2.15 Accounts receivable

Accounts receivable is amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial maturities of three months or less.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.18 Accounts payable

Accounts payable is obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable is classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Put option liabilities

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially debited to equity at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as income or expenses in the income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liabilities are current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.20 Borrowings

Borrowings (including short-term borrowings and long-term notes issued by the Group) are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.21 Current and deferred income tax (Cont'd)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option scheme and share award scheme), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.22 Employee benefits (Cont'd)

(c) Share-based compensation benefits (Cont'd)

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model - Black-Scholes valuation model (the "BS Model"), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the "Investment in subsidiaries" in the Company's statement of financial position.

At each reporting period end, the Group and the Company revise its estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision of original estimates, if any, in the income statement of the Group and in the "Investment in subsidiaries" of the Company, with a corresponding adjustment made to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue recognition

The Group principally derives revenues from provision of IVAS, MVAS and online advertising services in the PRC.

(a) IVAS and MVAS

Revenues from IVAS are derived principally from the provision of online games and community value-added services across various Internet platforms.

MVAS revenues are derived principally from providing users with bundled SMS packages, mobile games, and other mobile value-added services such as mobile music and mobile books.

IVAS and MVAS are either billed on a subscription basis or on a per transaction/message basis. Certain of these services are delivered to the Group's customers through the platforms of various subsidiaries of telecommunication operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Network Communications Corporation Limited ("China Unicom") and China Telecommunications Corporation ("China Telecom"), and these operators also collect certain service fees (the "Internet and Mobile Service Fees") on behalf of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.24 Revenue recognition (Cont'd)

(a) IVAS and MVAS (Cont'd)

In collecting the Internet and Mobile Service Fees on behalf of the Group, these telecommunication operators are entitled to a fixed commission, which is calculated based on agreed percentages of the Internet and Mobile Service Fees received/receivable by them, plus, in certain cases, a fixed per-message adjustment for the excess of messages sent over messages received between the platforms of the Group and these operators (collectively defined as “Mobile and Telecom Charges”). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to the Group.

The Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by these operators to the Group on a monthly basis. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

For the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data. The historical data used in estimating revenues includes the most recent three-month history of the Internet and Mobile Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group and the mobile operators. Adjustments are made in subsequent periods in the event that the actual revenue amounts are different from the original estimates.

In addition, the IVAS can also be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through non-mobile channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platforms and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as “Deferred revenue” in the statement of financial position (see Note 29). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase services, the revenue is recognised when the related services are rendered; (ii) when the payment unit is used to purchase virtual products/items in the Group's Internet platforms, the revenue is recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship, whichever is longer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.24 Revenue recognition (Cont'd)

(b) Online advertising

Online advertising revenues are mainly derived from display advertising on instant messaging clients, portals and other platforms, and search advertising through the self-developed search engines of the Group. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For advertising contracts based on the actual time period that the advertisements appear on the Group's instant messaging clients, portals and other platforms, the revenues are recognised ratably over the period in which the advertisements are displayed.

(c) Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.25 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is subject to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk) and credit risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group including the executive directors of the Group.

(a) Market risk

i) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in activities including payment of dividends, share repurchases and offshore investments, the Group holds some monetary assets denominated in USD, HKD or EUR subject to certain thresholds stated in its treasury mandate, and borrows some loans denominated in USD from time to time. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD, HKD or EUR as management considers that such risk could not be effectively reduced in a low-cost way. However, the Group had entered into certain foreign exchange forward contracts arrangements for managing the foreign exchange risk in relation to short-term borrowings denominated in USD. Details are disclosed in Note 25.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

As at 31 December 2011, the Group and the Company's non-RMB monetary assets and liabilities are listed below.

Group

	Denomination	As at 31 December	
	currency	2011	2010
		RMB'000	RMB'000
Monetary assets			
<i>Current assets</i>			
Receivables	USD	194,171	–
Receivables	HKD	11,048	–
Restricted cash	USD	20,322	–
Term deposits with initial term of over three months	USD	1,676	15,664
Term deposits with initial term of over three months	HKD	–	34,054
Cash and cash equivalents	USD	5,429,054	2,528,206
Cash and cash equivalents	HKD	293,787	231,608
Cash and cash equivalents	EUR	194,705	–
Monetary liabilities			
<i>Non-current liabilities</i>			
Long-term notes payable	USD	3,733,331	–
Long-term payables	USD	1,796,306	–
<i>Current liabilities</i>			
Payables	USD	1,559,692	502,427
Payables	HKD	52,086	–
Short-term borrowings	USD	5,040,720	3,973,620

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

i) Foreign exchange risk (Cont'd)

Company

	Denomination	As at 31 December	
	currency	2011	2010
		RMB'000	RMB'000
Monetary assets			
<i>Current assets</i>			
Receivables	USD	1,260,180	–
Term deposits with initial term of over three months	USD	–	635
Cash and cash equivalents	USD	47,110	35,281
Cash and cash equivalents	HKD	140,681	202,244
Monetary liabilities			
<i>Non-current liabilities</i>			
Long-term notes payable	USD	3,733,331	–

During the year ended 31 December 2011, the Group reported exchange gains of approximately RMB108,042,000 (2010: RMB34,189,000) as a result of RMB appreciation. The gains were recorded in “Finance income/(costs), net” in the consolidated income statement for the year ended 31 December 2011.

At 31 December 2011, if USD, EUR and HKD had strengthened/weakened by 5% (2010: 5%) against RMB with all other variables held constant, the profit before income tax for the year would have been approximately RMB301,869,000 lower/higher (2010: RMB83,326,000 lower/higher), mainly as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in USD, EUR and HKD.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

ii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as available-for-sale financial assets and derivative financial instruments. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investment made by the Group is either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management, including the executive directors, on a case by case basis.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2010: 5%) higher/lower as at 31 December 2011, the other comprehensive income would have been approximately RMB212,909,000 (2010: RMB206,344,000) higher/lower.

iii) Interest rate risk

The Group has interest-bearing assets including loans to associates and a jointly controlled entity, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 17, 18 and 19.

The Group's interest rate risk arises from borrowings (including short-term borrowings and long-term notes issued by the Group). Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the group to fair value interest rate risk. There is no other written policy on managing the interest rate risk and management is to minimise its impact on the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

iii) Interest rate risk (Cont'd)

As mentioned in foreign exchange risk above, the Group had extended bank borrowings and issued long-term notes denominated in USD having fixed interest rate as at 31 December 2011. Concurrently upon the draw-down of certain short-term borrowings, the Group entered into forward foreign exchange contracts to buy USD by selling RMB at designated future periods which substantially coincide with the respective loan maturity dates (see Note 27 for details).

Other financial assets and liabilities do not have material interest rate risk.

For the year ended 31 December 2011, if the average interest rate on variable interest-bearing borrowings had been 5% (2010: 5%) higher/lower, the Group's profit before income tax for the year would have been approximately RMB3,165,000 (2010: RMB1,751,000) lower/higher.

The Company had no variable interest-bearing liabilities.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) placed with banks and financial institutions, financial assets held for trading, and other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For accounts receivable, as mentioned in Note 2.24(a), a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled-back; or if the telecommunications operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's MVAS and IVAS might be adversely affected in terms of recoverability of receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

To manage this risk, the Group maintains frequent communication with the telecommunication operators to ensure the co-operation is effective. In view of the history of co-operation with the telecommunication operators and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunications operators is low (see Note 16 for details).

For accounts receivable from advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments representing a certain percentage of the total service fees for each advertising service are required.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalent. For the year ended 31 December 2011, in order to improve liquidity, the Group also issued long-term notes (see Note 28).

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Group

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2011					
Long-term notes payable	174,850	174,850	4,305,090	–	4,654,790
Long-term payables	–	316,622	641,070	1,002,541	1,960,233
Short-term borrowings	7,999,440	–	–	–	7,999,440
Derivative financial instruments	20,993	–	–	–	20,993
Accounts payable, other payables and accruals (excluding prepayments received from customers)	<u>7,155,609</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,155,609</u>
Total	<u><u>15,350,892</u></u>	<u><u>491,472</u></u>	<u><u>4,946,160</u></u>	<u><u>1,002,541</u></u>	<u><u>21,791,065</u></u>
At 31 December 2010					
Short-term borrowings	5,298,947	–	–	–	5,298,947
Derivative financial instruments	17,964	–	–	–	17,964
Accounts payable, other payables and accruals (excluding prepayment received from customers)	<u>4,303,649</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,303,649</u>
Total	<u><u>9,620,560</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>9,620,560</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Company

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2011					
Long-term notes payable	174,850	174,850	4,305,090	–	4,654,790
Amounts due to subsidiaries	1,829,429	–	–	–	1,829,429
Other payables and accruals	86,528	–	–	–	86,528
Total	<u>2,090,807</u>	<u>174,850</u>	<u>4,305,090</u>	<u>–</u>	<u>6,570,747</u>
At 31 December 2010					
Amounts due to subsidiaries	1,833,802	–	–	–	1,833,802
Other payables and accruals	56,279	–	–	–	56,279
Total	<u>1,890,081</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,890,081</u>

As of 31 December 2011, the Company reported net current liabilities amounting to approximately RMB464,280,000 on the statement of financial position of the Company. Nevertheless, certain subsidiaries held by the Company declared dividends in aggregate of HKD4,500,000,000 (equivalent to approximately RMB3,653,100,000), which would be paid to the Company subsequent to the end of the reporting period and the net current liabilities position was reversed subsequently. Accordingly, the directors of the Company consider it is appropriate to prepare the financial statements of the Company on the going concern basis.

Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidation statement of financial position, which is also equal to total assets less total liabilities.

The gearing ratios as at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Total liabilities	27,716,021	13,989,256
Total assets	56,804,365	35,830,114
Gearing ratio	49%	39%

The increase in gearing ratio as at 31 December 2011 was mainly due to the increase in short-term borrowings and long-term notes payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2011.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	3,318,794	–	1,024,808	4,343,602
Total	<u>3,318,794</u>	<u>–</u>	<u>1,024,808</u>	<u>4,343,602</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	–	20,993	–	20,993
Total	<u>–</u>	<u>20,993</u>	<u>–</u>	<u>20,993</u>

Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's assets that are measured at fair value as at 31 December 2010.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity securities	3,869,033	–	257,845	4,126,878
Total	<u>3,869,033</u>	<u>–</u>	<u>257,845</u>	<u>4,126,878</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	–	17,964	–	17,964
Total	<u>–</u>	<u>17,964</u>	<u>–</u>	<u>17,964</u>

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2011:

	Available-for-sale financial assets RMB'000
Opening balance	257,845
Additions	802,963
Impairment provision	(36,000)
	<hr/>
Closing balance	1,024,808
	<hr/> <hr/>

The following table presents the changes in level 3 instruments for the year ended 31 December 2010:

	Available-for-sale financial assets RMB'000
Opening balance	153,462
Additions	131,192
Transfer to investment in associates	(26,809)
	<hr/>
Closing balance	257,845
	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Recognition of revenues and accounts receivables related to IVAS and MVAS

As mentioned in Note 2.24(a), for the Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data.

As at 31 December 2011, the balance of accounts receivable not yet confirmed by China Mobile, China Unicom and China Telecom and their branches, subsidiaries and affiliates was estimated to be RMB746,471,000 (2010: RMB479,134,000).

Were the actual outcome to differ by 5% (2010: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB37,324,000 (2010: RMB23,957,000) if unfavourable; or
- increase the revenue and accounts receivable by RMB37,324,000 (2010: RMB23,957,000) if favourable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses

As mentioned in Note 2.22(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 22).

The fair value of options granted for the year ended 31 December 2011 determined using the BS Model was approximately HKD63,000,000 (2010: HKD251,307,000).

In addition, the Group also granted awarded shares to its employees at fair value of HKD1,157,928,000 during 2011 (2010: HKD666,732,000).

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares who will stay within the Group at the end of the vesting periods ("Expected Retention Rate of Grantees") in order to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2011, the Expected Retention Rate of Grantees was assessed to be 91% (2010: 91%).

If the Expected Retention Rate of Grantees had been increased/decreased by 5% (2010: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB65,143,000 (2010: RMB32,315,000).

(c) The estimates of the lifespan of virtual products/items provided in the Group's Internet platforms

As mentioned in Note 2.24(a), the end users purchase certain virtual products/items provided in the Group's Internet platforms and the relevant revenue is recognised based on the lifespan of the virtual products/items. The Group uses the available information, including the historical user pattern and behavior and the stipulated period of validity of the relevant virtual products/items, to estimate the lifespan of these products/items.

The Group will continue to monitor the average lifespan of the virtual products/items (provided and to be provided), which may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis than in prior periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) Income taxes

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

Were the actual final outcome (on the judgement areas) to differ by 5% from management's estimates, the group would need to:

- Increase the income tax liabilities by RMB35,436,000 (2010: RMB17,055,000) and the deferred tax liabilities by RMB46,977,000 (2010: RMB48,361,000), if unfavourable; or
- Decrease the income tax liabilities by RMB35,436,000 (2010: RMB17,055,000) and the deferred tax liabilities by RMB46,977,000 (2010: RMB48,361,000), if favourable.

4.2 Critical judgments in applying the Group's accounting policies

Recognition of deferred tax assets

Certain intra-group software and technology sales have been transacted within the Group. The self-developed software and technology purchased by two subsidiary companies, Tencent Computer and Shiji Kaixuan Technology Limited ("Shiji Kaixuan"), from other group companies have been initially recorded at the purchase prices as costs and then amortised over their contracted useful lives (the "Amortisation") in their local statutory financial statements, while these transactions were eliminated at the group level.

The Amortisation has been treated as a deductible expense in ascertaining the assessable profits of Tencent Computer and Shiji Kaixuan for tax reporting purposes while the costs of purchase of these assets were eliminated in preparation of the consolidated financial statements of the Group. As a result, deferred tax assets have been recognised, based on temporary differences arising from the accounting base (at the group level, which is zero) and the tax base of the software and technology involved in these intra-group transactions, at the respective enacted corporate income tax rates of Tencent Computer and Shiji Kaixuan.

As at 31 December 2011, the relevant deferred tax assets were approximately RMB197,010,000 (2010: RMB219,019,000) (Note 30), which are expected to be recovered by the tax profits to be generated from Tencent Computer and Shiji Kaixuan in future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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5 SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance and allocate resources, and determine the operating segments based on these reports.

The Group has following reportable segments for the years ended 31 December 2011 and 2010:

- IVAS;
- MVAS;
- Online advertising; and
- Others.

Other segments of the Group are mainly comprised of the provision of trademark licensing, software development services and software sales.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit/(losses) of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains, net, finance income/(costs), net and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended 31 December 2011 and 2010. 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.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in this annual report. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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5 SEGMENT INFORMATION (Cont'd)

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2011 and 2010 is as follows:

	Year ended 31 December 2011				
	IVAS	MVAS	Online		Total
			advertising	Others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues					
(revenues from external customers)	<u>23,042,758</u>	<u>3,270,841</u>	<u>1,992,216</u>	<u>190,257</u>	<u>28,496,072</u>
Gross profit/(losses)	<u>15,409,134</u>	<u>2,011,085</u>	<u>1,197,260</u>	<u>(49,715)</u>	<u>18,567,764</u>
Depreciation	724,418	66,249	58,605	34,666	883,938
Amortisation	67,056	-	-	-	67,056
Share of losses of associates	(23,513)	(742)	-	-	(24,255)
Share of losses of jointly controlled entities	<u>(165,731)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(165,731)</u>
	Year ended 31 December 2010				
	IVAS	MVAS	Online		Total
			advertising	Others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues					
(revenues from external customers)	<u>15,482,301</u>	<u>2,715,931</u>	<u>1,372,522</u>	<u>75,277</u>	<u>19,646,031</u>
Gross profit/(losses)	<u>10,719,866</u>	<u>1,705,073</u>	<u>931,220</u>	<u>(30,328)</u>	<u>13,325,831</u>
Depreciation	374,991	35,264	21,884	13,923	446,062
Amortisation	37,033	-	-	-	37,033
Share of profit of associates	67,563	4,796	-	-	72,359
Share of profit of jointly controlled entities	<u>3,399</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,399</u>

The reconciliation of gross profit to profit before tax is shown in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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5 SEGMENT INFORMATION (Cont'd)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC. For the year ended 31 December 2011, revenues from external customers in the PRC (excluding Hong Kong) were RMB28,027,516,000 (2010: RMB19,632,117,000), and revenues from external customers in other areas were RMB468,556,000 (2010: RMB13,914,000).

The Group also conducts operations in United States and Europe, and holds financial instruments as investments which are traded in other territories. The geographical information on the total assets is as follows:

	Total assets	
	2011	2010
	RMB'000	RMB'000
Operating assets		
– The PRC	42,118,996	27,720,196
– United States and Europe	2,726,895	13,772
Investments		
– The PRC (excluding Hong Kong)	4,409,589	446,608
– Hong Kong	3,538,071	2,734,762
– United States	206,962	159,719
– Europe	2,658,526	3,869,033
– Other countries	1,145,326	886,024
	<hr/>	<hr/>
Consolidated	56,804,365	35,830,114
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2011, the total non-current assets other than financial instruments and deferred tax assets located in the PRC were RMB13,620,472,000 (2010: RMB5,282,748,000), and the total non-current assets located in other countries were RMB3,138,745,000 (2010: RMB827,728,000).

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the year ended 31 December 2011.

Turnover consists of revenues generated by the Group, which were RMB28,496,072,000 and RMB19,646,031,000 for the years ended 31 December 2011 and 2010, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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6 FIXED ASSETS

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010						
Cost	1,299,071	1,955,282	68,837	8,118	90,368	3,421,676
Accumulated depreciation	(46,836)	(784,461)	(20,535)	(5,598)	(47,044)	(904,474)
Net book amount	<u>1,252,235</u>	<u>1,170,821</u>	<u>48,302</u>	<u>2,520</u>	<u>43,324</u>	<u>2,517,202</u>
Year ended 31 December 2010						
Opening net book amount	1,252,235	1,170,821	48,302	2,520	43,324	2,517,202
Business combinations	–	2,174	316	–	–	2,490
Other additions	68,761	1,273,450	57,135	575	42,486	1,442,407
Disposals	–	(338)	(23)	(75)	(255)	(691)
Depreciation	(59,458)	(574,870)	(17,072)	(1,065)	(16,115)	(668,580)
Closing net book amount	<u>1,261,538</u>	<u>1,871,237</u>	<u>88,658</u>	<u>1,955</u>	<u>69,440</u>	<u>3,292,828</u>
At 31 December 2010						
Cost	1,368,462	3,185,873	125,816	7,636	130,305	4,818,092
Accumulated depreciation	(106,924)	(1,314,636)	(37,158)	(5,681)	(60,865)	(1,525,264)
Net book amount	<u>1,261,538</u>	<u>1,871,237</u>	<u>88,658</u>	<u>1,955</u>	<u>69,440</u>	<u>3,292,828</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

6 FIXED ASSETS (Cont'd)

	Buildings	Computer equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011						
Opening net book amount	1,261,538	1,871,237	88,658	1,955	69,440	3,292,828
Business combinations	–	17,388	1,113	415	122	19,038
Other additions	363,067	3,030,367	129,038	4,947	256,018	3,783,437
Disposals	–	(1,870)	(104)	(37)	(282)	(2,293)
Depreciation	(77,438)	(1,046,924)	(34,396)	(1,183)	(47,791)	(1,207,732)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Closing net book amount	<u>1,547,167</u>	<u>3,869,940</u>	<u>184,274</u>	<u>6,097</u>	<u>277,474</u>	<u>5,884,952</u>
At 31 December 2011						
Cost	1,731,913	6,159,151	255,073	12,631	385,638	8,544,406
Accumulated depreciation	(184,746)	(2,288,953)	(70,764)	(6,534)	(108,131)	(2,659,128)
Exchange difference	–	(258)	(35)	–	(33)	(326)
Net book amount	<u>1,547,167</u>	<u>3,869,940</u>	<u>184,274</u>	<u>6,097</u>	<u>277,474</u>	<u>5,884,952</u>

For the year ended 31 December 2011, depreciation of RMB883,938,000 (2010: RMB446,062,000), RMB13,377,000 (2010: RMB12,198,000) and RMB310,417,000 (2010: RMB210,320,000) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

Notes to the Consolidated Financial Statements

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7 CONSTRUCTION IN PROGRESS

	2011 RMB'000	2010 RMB'000
Opening net book amount	386,943	105,771
Additions	500,268	410,362
Transfer to fixed assets	(728,555)	(129,190)
Closing net book amount	<u>158,656</u>	<u>386,943</u>

8 INVESTMENT PROPERTIES

	2011 RMB'000	2010 RMB'000
Opening net book amount	37,229	68,025
Additions	–	247
Transfer to fixed assets	(14,829)	(29,763)
Depreciation	(529)	(1,280)
Closing net book amount	<u>21,871</u>	<u>37,229</u>

The investment properties as at 31 December 2011 mainly represent certain units in office buildings in Chengdu, the PRC.

The fair value of the investment properties was estimated to be approximately RMB38,884,000 (31 December 2010: RMB53,492,000) as at 31 December 2011, which was determined based on current prices in an active market for similar buildings in the same district.

The period of leases whereby the Group leases its investment properties under operating leases is within 3 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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9 LAND USE RIGHTS

	2011 RMB'000	2010 RMB'000
Opening net book amount	229,890	35,296
Additions	5,950	198,318
Amortisation	(4,925)	(3,724)
Closing net book amount	<u>230,915</u>	<u>229,890</u>

The land use rights all relate to land in the PRC with remaining lease period of 44 to 49 years. For the year ended 31 December 2011, RMB4,925,000 (2010: RMB3,724,000) of the amortisation was charged as general and administrative expenses.

10 INTANGIBLE ASSETS

	Goodwill RMB'000	Computer software and technology RMB'000	Licences RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010					
Cost	62,234	257,817	196,806	14,497	531,354
Accumulated amortisation	–	(107,750)	(145,140)	(9,751)	(262,641)
Net book amount	<u>62,234</u>	<u>150,067</u>	<u>51,666</u>	<u>4,746</u>	<u>268,713</u>
Year ended 31 December 2010					
Opening net book amount	62,234	150,067	51,666	4,746	268,713
Business combinations	240,467	32,134	324	26,116	299,041
Other additions	–	87,887	25,000	1,751	114,638
Amortisation	–	(39,091)	(62,975)	(7,345)	(109,411)
Closing net book amount	<u>302,701</u>	<u>230,997</u>	<u>14,015</u>	<u>25,268</u>	<u>572,981</u>
At 31 December 2010					
Cost	302,701	377,838	222,130	42,364	945,033
Accumulated amortisation	–	(146,841)	(208,115)	(17,096)	(372,052)
Net book amount	<u>302,701</u>	<u>230,997</u>	<u>14,015</u>	<u>25,268</u>	<u>572,981</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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10 INTANGIBLE ASSETS (Cont'd)

	Goodwill	Computer software and technology	Licences	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011					
Opening net book amount	302,701	230,997	14,015	25,268	572,981
Business combinations (Note 43)	2,391,995	110,031	663,549	239,084	3,404,659
Other additions	–	141,792	469,392	1,187	612,371
Amortisation	–	(113,508)	(436,683)	(176,030)	(726,221)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
	<u>2,615,778</u>	<u>368,980</u>	<u>707,199</u>	<u>88,019</u>	<u>3,779,976</u>
At 31 December 2011					
Cost	2,694,696	629,661	1,355,071	282,635	4,962,063
Accumulated amortisation	–	(260,349)	(644,798)	(193,126)	(1,098,273)
Exchange difference	(78,918)	(332)	(3,074)	(1,490)	(83,814)
	<u>2,615,778</u>	<u>368,980</u>	<u>707,199</u>	<u>88,019</u>	<u>3,779,976</u>

Amortisation of RMB659,165,000 (2010: RMB72,378,000) and RMB67,056,000 (2010: RMB37,033,000) were charged as general and administrative expenses and cost of revenues respectively for the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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10 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of IVAS.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the IVAS business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2011 and 2010 are as follows:

	2011	2010
Gross margin	64%	60%
Growth rate	3%	3%
Discount rate	18%	17%

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

Based on the assessment made by management, no provision for impairment on goodwill was required as at 31 December 2011.

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11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY

(a) Investments in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Investments in subsidiaries:		
– investments in equity interests - at cost, unlisted	69	52
– deemed investments arising from share-based compensation (Note (i))	1,827,855	1,199,663
– advance to subsidiaries (Note (ii))	3,954,457	1,635,137
	5,782,381	2,834,852

The following is a list of principal subsidiaries of the Company as at 31 December 2011:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2011		2010		
			Direct	Indirect	Direct	Indirect	
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB30,000,000	–	100% (Note (iii))	–	100%	Provision of Internet and mobile and telecommunications value-added services, and Internet advertisement services
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	–	100%	–	100%	Development of computer software and provision of information service
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	–	100% (Note (iii))	–	100%	Provision of Internet advertisement service

Notes to the Consolidated Financial Statements

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11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2011		2010		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD80,000,000	-	100%	-	100%	Development of computer software and provision of information technology services
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	-	100%	-	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	-	100%	-	100%	Development of computer software and provision of information technology services
Nanjing Wang Dian Technology Limited ("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	-	100% (Note (iii))	-	100%	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	-	100% (Note (iii))	-	100%	Provision of mobile and telecommunications value-added services
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	-	100% (Note (iii))	-	100%	Provision of mobile and telecommunications value-added services

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11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Percentage of equity interest attributable to the Company				Principal activities
			2011		2010		
			Direct	Indirect	Direct	Indirect	
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	-	100%	-	100%	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	-	100%	-	100%	Development of computer software and provision of Internet information services
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD60,000,000	-	100%	-	100%	Development of computer software and provision of information technology services
Tencent Technology (Wuhan) Company Limited ("Tencent Wuhan")	Established on 18 November 2011 in the PRC, wholly foreign owned enterprise	USD30,000,000	-	100%	-	-	Development of computer software and provision of Internet information services
Riot Games, Inc. ("Riot Games")	Established in September 2006 in the United States, private limited liability company	USD43,068,238	-	91.8%	-	-	Development and operation of online games

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11 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND A CONTROLLED SPECIAL PURPOSE ENTITY (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Note:

- (i) The amount represents share-based compensation expenses arising from grant of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries, which were deemed to be investment made by the Company into these subsidiaries.
- (ii) All these balances are unsecured and interest-free and their repayments are neither planned nor likely to occur in the foreseeable future.
- (iii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its legally owned subsidiaries. As a result, they are presented as consolidating subsidiaries of the Company.

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries as at 31 December 2011 represented current account balances maintained by the Company with certain subsidiaries. All balances are unsecured and interest-free and the balances are repayable on demand. As at 31 December 2011, the amounts due from subsidiaries were neither past due nor impaired.

(c) Consolidation of a special purpose entity

In connection with the implementation of the share award scheme of the Group mentioned in Note 22(b), the Company has set up a special purpose entity ("Share Scheme Trust"), and its particulars are as follows:

Special purpose entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for a share award scheme which is set up for the benefits of eligible persons of the scheme

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

For the year ended 31 December 2011, the Company contributed approximately RMB314,064,000 (2010: RMB163,395,000) to the Share Scheme Trust for financing its acquisition of the Company's shares.

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12 INVESTMENT IN ASSOCIATES

	2011 RMB'000	2010 RMB'000
At beginning of the year	1,070,633	477,622
Acquisitions (Note (i), (ii), (iii) and (iv))	3,634,922	412,094
Additional investments in existing associates	99,537	97,087
Transfer from available-for-sale financial assets	–	26,809
Transfer out as a result of step-up business combinations (Note 43)	(257,585)	–
Share of (losses)/profit of associates	(24,255)	72,359
Dividends received from associates	(20,000)	(15,338)
Impairment provision	(165,177)	–
At end of the year	<u><u>4,338,075</u></u>	<u><u>1,070,633</u></u>

Note:

- (i) During the year ended 31 December 2011, the Group acquired 16.15% equity interest in eLong Incorporated (“eLong”), a company listed on NASDAQ, which is mainly engaged in the provision of online travel services, for a consideration of USD84,389,000 (equivalent to approximately RMB548,447,000). The Group accounted for eLong as an associate although the Group held less than 20% equity interest. This is because the Group has the ability to exercise significant influence over this investee with a representative on its board of directors.
- (ii) During the year ended 31 December 2011, the Group acquired 15.28% equity interest in Kingsoft Corporation Limited (“Kingsoft”), a company listed on the Stock Exchange, for a consideration of approximately HKD892,036,000 (equivalent to approximately RMB741,817,000), and 10% equity interest in Beijing Kingsoft Internet Security Software Corporation Limited (“Kingsoft Security”), a subsidiary of Kingsoft, for a consideration of USD20,000,000 (equivalent to approximately RMB129,432,000). Kingsoft is principally engaged in the provision of games research, development, operation and distribution whilst Kingsoft Security specialises in the development and distribution of Internet securities software. The Group accounts for these two companies as associates although the Group holds less than 20% equity interest in them because the Group has the ability to exercise significant influence over these investees with a representative on their board of directors respectively.
- (iii) During the year ended 31 December 2011, the Group acquired 20.20% equity interest in a securities investment analysis software company, which provides securities investment solutions to investors through its Internet platform, for a consideration of RMB380,000,000. In addition, the Group also acquired 21.70% and 33.37% equity interests in two e-commerce companies for a consideration of USD46,000,000 (equivalent to approximately RMB302,459,000) and RMB314,437,000 respectively.
- (iv) In addition to the above, the Group acquired some other associates for an aggregate consideration of RMB1,218,330,000 during the year ended 31 December 2011. They are principally engaged in e-commerce and other Internet related businesses.

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12 INVESTMENT IN ASSOCIATES (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of the associates who are listed companies, are shown in aggregate as follows:

	Assets	Liabilities	Revenues	Profit/ (Losses)	Fair value of listed companies as at 31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011					
Listed companies:					
16.15% equity interest in eLong (Note (i))	576,958	33,065	55,452	(4,554)	524,178
15.28% equity interest in Kingsoft (Note (i))	871,194	115,218	70,055	14,159	419,441
	<u>1,448,152</u>	<u>148,283</u>	<u>125,507</u>	<u>9,605</u>	<u>943,619</u>
Non-listed companies:					
A Southeast Asia based online game company, 31.25% equity interest	518,742	25,455	218,540	44,515	
A PRC based securities investment analysis software company, 20.20% equity interest	391,301	23,523	60,326	(12,222)	
A PRC based e-commerce company, 33.37% equity interest	327,299	19,809	59,166	(6,947)	
A PRC based SNS company, 13.79% equity interest (Note (i))	258,480	6,759	6,890	(2,475)	
A PRC based e-commerce company, 21.70% equity interest	317,360	48,771	64,963	(33,870)	
Other associates (Note (ii))	1,692,702	343,361	963,817	(22,861)	
	<u>3,505,884</u>	<u>467,678</u>	<u>1,373,702</u>	<u>(33,860)</u>	
	<u>4,954,036</u>	<u>615,961</u>	<u>1,499,209</u>	<u>(24,255)</u>	

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For the year ended 31 December 2011
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12 INVESTMENT IN ASSOCIATES (Cont'd)

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit RMB'000
2010				
Non-listed companies:				
A Southeast Asia based online game company, 30.02% equity interest	471,650	22,879	191,261	34,684
A United States based online game company, 22.34% equity interest	124,472	13,223	31,072	7,729
A PRC advertising media company, 10.00% equity interest (Note (i))	148,250	17,950	–	–
A PRC based online game company, 50.00% equity interest	98,272	3,465	20,794	7,681
Other associates (Note (ii))	318,079	32,573	96,386	22,265
	<u>1,160,723</u>	<u>90,090</u>	<u>339,513</u>	<u>72,359</u>

Note:

- (i) Although the Group holds less than 20% equity interest in these investees, the Group treated them as associates because the Group is able to exercise its significant influence on the financial and operating policy decisions of these investees through its representatives on their board of directors.
- (ii) The carrying amount of the investment made in each individual associate as at 31 December 2011 was below RMB250,000,000 (2010: Below RMB80,000,000).

As at 31 December 2011 and 2010, there were certain call options embedded in investments in associates. The directors of the Company considered that the fair value of such call options was insignificant and accordingly, the Group did not separately recognise these call options in the financial statements.

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13 INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	2011 RMB'000	2010 RMB'000
At beginning of the year	74,542	–
Additions	194,915	71,143
Share of (losses)/profit of jointly controlled entities	(165,731)	3,399
Impairment provision	(41,823)	–
	<u>61,903</u>	<u>74,542</u>
At end of the year	<u>61,903</u>	<u>74,542</u>

14 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
Assets			
At 31 December 2011			
Available-for-sale financial assets (Note 15)	–	4,343,602	4,343,602
Accounts receivable (Note 16)	2,020,796	–	2,020,796
Deposits and other receivables	1,433,473	–	1,433,473
Term deposits with initial term of over three months (Note 18)	13,716,040	–	13,716,040
Restricted cash	4,942,595	–	4,942,595
Cash and cash equivalents (Note 19)	12,612,140	–	12,612,140
	<u>34,725,044</u>	<u>4,343,602</u>	<u>39,068,646</u>
Total	<u>34,725,044</u>	<u>4,343,602</u>	<u>39,068,646</u>

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14 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
At 31 December 2010			
Available-for-sale financial assets	–	4,126,878	4,126,878
Accounts receivable	1,715,412	–	1,715,412
Deposits and other receivables	281,126	–	281,126
Term deposits with initial term of over three months	11,725,743	–	11,725,743
Restricted cash	1,036,457	–	1,036,457
Cash and cash equivalents	10,408,257	–	10,408,257
	<u>25,166,995</u>	<u>4,126,878</u>	<u>29,293,873</u>

	Liabilities at fair value through the profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities			
At 31 December 2011			
Long-term notes payable (Note 28)	–	3,733,331	3,733,331
Long-term payables (Note 26)	–	1,859,808	1,859,808
Accounts payable (Note 23)	–	2,244,114	2,244,114
Other payables and accruals (excluded prepayment received from customers)	–	4,911,495	4,911,495
Short-term borrowings (Note 27)	–	7,999,440	7,999,440
Derivative financial instruments	20,993	–	20,993
	<u>20,993</u>	<u>20,748,188</u>	<u>20,769,181</u>

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14 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Liabilities at fair value through the profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
At 31 December 2010			
Accounts payable	–	1,380,464	1,380,464
Other payables and accruals (excluded prepayment received from customers)	–	2,923,185	2,923,185
Short-term borrowings	–	5,298,947	5,298,947
Derivative financial instruments	17,964	–	17,964
	<u>17,964</u>	<u>–</u>	<u>17,964</u>
Total	<u>17,964</u>	<u>9,602,596</u>	<u>9,620,560</u>

Company

	Loans and receivables RMB'000
Assets	
At 31 December 2011	
Amounts due from subsidiaries (Note 11(b))	1,260,180
Deposits and other receivables	2,702
Cash and cash equivalents (Note 19)	187,791
	<u>187,791</u>
Total	<u>1,450,673</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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14 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company (Cont'd)

	Loans and receivables RMB'000
At 31 December 2010	
Amounts due from subsidiaries	708,074
Deposits and other receivables	3,721
Term deposits with initial term of over three months	635
Cash and cash equivalents	237,525
	<hr/>
Total	949,955
	<hr/> <hr/>

Other financial liabilities at amortised cost RMB'000

Liabilities

At 31 December 2011

Long-term notes payable (Note 28)	3,733,331
Amounts due to subsidiaries	1,829,429
Other payables and accruals	86,528
	<hr/>
Total	5,649,288
	<hr/> <hr/>

At 31 December 2010

Amounts due to subsidiaries	1,833,802
Other payables and accruals	56,279
	<hr/>
Total	1,890,081
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Notes to the Consolidated Financial Statements

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(All amounts in RMB unless otherwise stated)

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011	2010
	RMB'000	RMB'000
At beginning of the year	4,126,878	153,462
Additions (Notes (i), (ii), (iii) and (iv))	1,487,645	2,179,096
Transfer to investment in associates	–	(26,809)
(Losses)/gains from changes in fair value of available-for-sale financial assets	(1,234,921)	1,821,129
Impairment provision	(36,000)	–
At end of the year, all non-current	<u>4,343,602</u>	<u>4,126,878</u>

Note:

- (i) During the year ended 31 December 2011, the Group acquired 4.60% equity interest in Huayi Brother Media Corporation (“Huayi”), a film producer listed on the Shenzhen Stock Exchange in the PRC, which is mainly engaged in the provision of movie and TV series production and entertainment brokerage, for a consideration of RMB444,933,000.
- (ii) During the year ended 31 December 2011, the Group acquired 5.01% equity interest in Media Asia Group Holdings Limited (“Media Asia”), a company listed on the Growth Enterprise Market of the Stock Exchange, which is mainly engaged in movie production, for a consideration of approximately HKD132,090,000 (equivalent to approximately RMB108,208,000).
- (iii) During the year ended 31 December 2011, the Group acquired 5.00% equity interest in an investment fund for a consideration of approximately USD49,875,000 (equivalent to approximately RMB321,709,000).
- (iv) In addition to the above, the Group acquired some other available-for-sale financial assets for an aggregate consideration of RMB612,795,000 during the year ended 31 December 2011. They are principally engaged in software development, equity investments and content production.

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15 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Cont'd)

Available-for-sale financial assets include the following:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Listed equity interests:		
7.76% (2010: 7.56%) equity interest in Mail.ru Group Limited	2,658,527	3,869,033
4.60% (2010: nil) equity interest in Huayi	439,518	–
3.98% (2010: nil) equity interest in Hangzhou Shunwang Technology Co., Ltd.	129,961	–
5.01% (2010: nil) equity interest in Media Asia	90,788	–
	<u>3,318,794</u>	<u>3,869,033</u>
Unlisted equity interests:		
5.00% (2010: nil) equity interest in an investment fund in Hong Kong	321,709	–
20.31% (2010: nil) equity interest in an investment fund in the PRC (Note)	160,000	–
4.08% (2010: nil) equity interest in a film company in the PRC	100,000	–
20.50% (2010: nil) equity interest in an investment fund in the Cayman Islands (Note)	56,435	–
Others	386,664	257,845
	<u>1,024,808</u>	<u>257,845</u>
	<u>4,343,602</u>	<u>4,126,878</u>
Market value of listed securities	<u>3,318,794</u>	<u>3,869,033</u>

Note:

Although the Group holds over 20% equity interest in these two investment funds, the Group treats them as available-for-sale financial assets because the Group has no representative on the governing bodies of these investment funds, and accordingly, the Group is not able to exercise the significant influence on the financial and operating policy decisions of these investment funds.

Notes to the Consolidated Financial Statements

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16 ACCOUNTS RECEIVABLE

	As at 31 December	
	2011 RMB'000	2010 RMB'000
0 - 30 days	1,103,261	931,438
31 - 60 days	443,555	331,922
61 - 90 days	246,501	143,785
Over 90 days	227,479	308,267
	<u>2,020,796</u>	<u>1,715,412</u>

Accounts receivable was mainly denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Telecommunications operators	1,178,445	1,030,549
Online advertising customers	673,844	613,427
Others	168,507	71,436
	<u>2,020,796</u>	<u>1,715,412</u>

While there are no contractual requirements for the telecommunication operators to pay amounts owing to the Group within a specified period of time, they usually settle the amounts due within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

As at 31 December 2011, insignificant amounts of accounts receivable were past due. No impairment provision was considered necessary after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 31 December 2011.

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17 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Included in non-current assets:		
Prepayment for land use rights	258,237	258,237
Prepayment for purchase of building	510,425	–
Prepayment for licensed content	458,009	187,193
Loans to associates and a jointly controlled entity (Note)	111,063	–
Non-current portion of running royalty fees for online games	945,135	–
	2,282,869	445,430
Included in current assets:		
Current portion of running royalty fees for online games	405,915	85,755
Prepaid expenses	483,592	120,991
Rental deposits and other deposits	112,714	46,466
Interest receivables	143,370	89,435
Refundable value-added tax	270,028	45,764
Loans advanced to associates (Note)	6,052	–
Others	790,246	99,461
	2,211,917	487,872
	4,494,786	933,302

Note:

During the year ended 31 December 2011, the Group made loans to its associates and a jointly controlled entity with an aggregate principal amount of RMB113,050,000. The loans to associates with an aggregate principal amount of RMB100,448,000 are required to be repaid in 1 to 3 years and the applicable interest rates were at 1.0% to 5.1% per annum or interest-free. The loan to a jointly controlled entity with aggregate principal amount of RMB12,602,000 has no fixed term of repayment, bearing applicable interest rate of 5.5%.

The directors of the Company considered that the carrying amounts of the prepayments, deposits and other assets approximated to their fair values as at 31 December 2011.

Deposits and other receivables (excluding prepayment for land use rights, prepayment for purchase of building, prepaid expenses, prepayment for online game licences and running royalty fees for online games) were neither past due nor impaired. Their recoverability was assessed with reference made to the credit status of the recipients.

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18 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2011 was 2.95% (2010: 2.15%).

An analysis of the Group and the Company's term deposits denominated in USD and HKD with initial term of over three months as at 31 December 2011 were presented in Note 3.1(a).

The directors of the Company considered that the carrying value of the term deposits with initial term of over three months approximated their fair value as at 31 December 2011. Term deposits with initial term of over three months were neither past due nor impaired.

As at 31 December 2011, approximately 94% (2010: 94%) of these term deposits were placed in the Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank, Industrial and Commercial Bank of China, Morgan Stanley Bank International (China) Limited, The Hongkong and Shanghai Banking Corporation, Australian and New Zealand bank Group Ltd. and Sumitomo Mitsui Banking Corporation.

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances and cash	7,833,767	5,688,087	187,791	237,525
Term deposits with initial terms within three months	4,778,373	4,720,170	—	—
	12,612,140	10,408,257	187,791	237,525
Maximum exposure to credit risk	12,611,379	10,407,767	187,791	237,525

The effective interest rates of the term deposits of the Group with initial term within three months for the year ended 31 December 2011 and 2010 were 1.16% and 1.62%, respectively.

Details of the balances denominated in USD, EUR and HKD maintained by the Group and the Company as at 31 December 2011 are presented in Note 3.1(a). Approximately RMB6,694,164,000 (2010: RMB7,648,272,000) of the total balance of the Group was denominated in RMB and it was deposited with banks in the PRC. The Company had no material cash balance denominated in RMB.

As at 31 December 2011, cash in bank and term deposits with initial terms within three months were neither past due nor impaired. In addition, approximately 89% (2010: approximately 88%) of cash and cash equivalents of the Group were placed in Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation, Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank, Industrial and Commercial Bank of China, and China Citic Bank.

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20 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE

The total authorised share capital of the Company comprises 10,000,000,000 ordinary shares (2010: same) with par value of HKD0.0001 per share (2010: HKD0.0001 per share).

As at 31 December 2011, the total number of issued ordinary shares of the Company was 1,839,814,008 shares (2010: 1,835,730,235 shares) which included 17,809,839 shares (2010: 13,562,814 shares) held under the share award scheme (Note 22(b)). They were all fully paid up.

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
At 1 January 2010	1,818,890,059	197	1,244,425	(123,767)	703,563	1,824,418
Employee share option schemes:						
– value of employee services	–	–	–	–	139,621	139,621
– number of shares issued and proceeds received	15,801,201	1	199,248	–	–	199,249
Employee share award scheme:						
– value of employee services	–	–	–	–	356,479	356,479
– shares purchased for share award scheme	–	–	–	(167,519)	–	(167,519)
– shares allotted for share award scheme	3,662,975	–	–	–	–	–
– shares vested from share award scheme and transferred to the grantees	–	–	(33,149)	33,149	–	–
Repurchase and cancellation of shares	(2,624,000)	–	(310,222)	–	–	(310,222)
At 31 December 2010	1,835,730,235	198	1,100,302	(258,137)	1,199,663	2,042,026

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20 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (Cont'd)

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
At 1 January 2011	1,835,730,235	198	1,100,302	(258,137)	1,199,663	2,042,026
Employee share option schemes:						
– value of employee services	–	–	–	–	159,233	159,233
– number of shares issued and proceeds received (Note (i))	7,624,113	–	159,729	–	–	159,729
Employee share award scheme:						
– value of employee services	–	–	–	–	576,134	576,134
– shares acquired and withheld for share award scheme (Note (ii))	–	–	–	(438,714)	–	(438,714)
– shares allotted for share award scheme (Note (iv))	4,045,360	–	–	–	–	–
– shares vested from share award scheme and transferred to the grantees	–	–	(89,977)	89,977	–	–
Repurchase and cancellation of shares	(7,585,700)	–	(1,047,033)	–	–	(1,047,033)
At 31 December 2011	1,839,814,008	198	123,021	(606,874)	1,935,030	1,451,375

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20 SHARE CAPITAL, SHARE PREMIUM, SHARES HELD FOR SHARE AWARD SCHEME AND SHARE-BASED COMPENSATION RESERVE (Cont'd)

Note:

- (i) During the year ended 31 December 2011, 7,060,933 Post-IPO options with exercise prices ranging from HKD3.6650 to HKD90.3000; and 563,180 Pre-IPO options with exercise prices ranging from USD0.0497 to USD0.4396 were exercised.
- (ii) During the year ended 31 December 2011, the Share Scheme Trust acquired and withheld 2,773,810 ordinary shares of the Company for a total consideration of HKD524,805,000 (equivalent to approximately RMB438,714,000), which had been deducted from shareholders' equity.
- (iii) During the year ended 31 December 2011, the Share Scheme Trust transferred 2,572,145 ordinary shares of the Company (2010: 1,696,478 shares) to the share awardees upon vesting of the awarded shares.
- (iv) During the year ended 31 December 2011, the Company allotted 4,045,360 ordinary shares (2010: 3,662,975 shares) to the Share Scheme Trust for the purpose of granting awarded shares under the share award scheme.
- (v) As at 31 December 2011, included in "Shares held for share award scheme", 1,970,840 shares (2010: 80 shares) held by the Share Scheme Trust had not yet been granted to employees.

21 OTHER RESERVES

	Capital reserve (Note i) RMB'000	Available- for-sale financial assets RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund (Note (ii)) RMB'000	Reserve fund (Note (ii)) RMB'000	Total RMB'000
Balance at 1 January 2010	(236,693)	–	–	57,924	12,405	(166,364)
Reversal of the liabilities in respect of the put options granted to non-controlling interests owners	94,246	–	–	–	–	94,246
Acquisition of additional interests in a subsidiary	154,198	–	–	–	–	154,198
Profit appropriations to statutory reserves	–	–	–	8,237	–	8,237
Net gains from changes in fair value of available-for-sale financial assets	–	1,821,129	–	–	–	1,821,129
Transfer from retained earnings	8,249	–	–	–	–	8,249
Balance at 31 December 2010	20,000	1,821,129	–	66,161	12,405	1,919,695

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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21 OTHER RESERVES (Cont'd)

	Capital reserve (Note (i)) RMB'000	Available- for-sale financial assets RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund (Note (ii)) RMB'000	Reserve fund (Note (ii)) RMB'000	Total RMB'000
Balance at 1 January 2011	20,000	1,821,129	–	66,161	12,405	1,919,695
Recognition of financial liabilities in respect of the put options granted to non-controlling interests (Note 43(a)(ii))	(670,985)	–	–	–	–	(670,985)
Non-controlling interests and deemed consideration arising from business combinations (Note 43(a) and (b))	(154,732)	–	–	–	–	(154,732)
Changes in equity interests in subsidiaries without change of control	23,919	–	–	–	–	23,919
Profit appropriations to statutory reserves	–	–	–	439,650	–	439,650
Net losses from changes in fair value of available-for-sale financial assets	–	(1,233,873)	–	–	–	(1,233,873)
Currency translation differences	–	–	(31,583)	–	–	(31,583)
Transfer from retained earnings	10,000	–	–	–	–	10,000
Balance at 31 December 2011	(771,798)	587,256	(31,583)	505,811	12,405	302,091

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For the year ended 31 December 2011
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21 OTHER RESERVES (Cont'd)

Note:

- (i) The capital reserve mainly arises from transactions with non-controlling interests.
- (ii) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

22 SHARE-BASED PAYMENTS

(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 Post-IPO Option Scheme III, under which the directors 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. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

In respect of Post-IPO Option Scheme II and Post-IPO Option Scheme III, the exercise price must be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. 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.

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For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

22 SHARE-BASED PAYMENTS(Cont'd)

(a) Share option schemes (Cont'd)

(1) Movements in share options

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

	Pre-IPO		Post-IPO		Post-IPO		Post-IPO		Total
	Option Scheme		Option Scheme I		Option Scheme II		Option Scheme III		
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	
At 1 January 2010	USD0.0812	1,865,068	HKD11.5050	24,941,918	HKD45.1756	28,991,419	—	—	55,798,405
Granted	—	—	—	—	HKD138.3689	2,708,350	HKD158.5000	1,000,000	3,708,350
Exercised	USD0.0759	(1,301,875)	HKD9.9387	(11,925,949)	HKD32.3254	(2,573,377)	—	—	(15,801,201)
Lapsed	—	—	HKD17.9512	(210,206)	HKD58.2388	(331,224)	—	—	(541,430)
At 31 December 2010	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Exercisable as at 31 December 2010	USD0.0935	563,193	HKD11.2750	11,069,343	HKD41.4494	6,210,804	—	—	17,843,340
At 1 January 2011	USD0.0935	563,193	HKD12.8579	12,805,763	HKD54.9391	28,795,168	HKD158.5000	1,000,000	43,164,124
Granted	—	—	—	—	HKD191.1886	771,175	—	—	771,175
Exercised	USD0.0935	(563,180)	HKD13.8888	(4,038,282)	HKD44.9126	(3,022,651)	—	—	(7,624,113)
Lapsed	USD0.1967	(13)	HKD6.0210	(5,544)	HKD64.9539	(387,604)	—	—	(393,161)
At 31 December 2011	—	—	HKD12.3871	8,761,937	HKD59.9665	26,156,088	HKD158.5000	1,000,000	35,918,025
Exercisable as at 31 December 2011	—	—	HKD11.4611	8,173,937	HKD42.9814	8,996,582	—	—	17,170,519

During the year ended 31 December 2011, no share options (2010: 1,000,000 options) was granted to any directors of the Company.

As a result of the options exercised during the year ended 31 December 2011, 7,624,113 ordinary shares (2010: 15,801,201 ordinary shares) were issued by the Company (Note 20). The weighted average price of the shares at the time these options were exercised was HKD187.26 (equivalent to approximately RMB155.40) per share (2010: HKD161.12 per share).

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For the year ended 31 December 2011
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22 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(2) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2011 and 31 December 2010 are as follows:

Expiry Date	Range of exercise price	Number of share options	
		31 December 2011	31 December 2010
31 December 2011	USD0.0497	–	482,700
(Pre-IPO Option Scheme)	USD0.1967-USD0.4396	–	80,493
		–	563,193
10 years commencing from the adoption date of 24 March 2004 (Post-IPO Option Scheme I)	HKD3.6650-HKD8.3500	4,164,319	5,553,585
	HKD11.5500-HKD25.2600	4,597,618	7,252,178
		8,761,937	12,805,763
7 years commencing from the date of grant of options (Post-IPO Option Scheme II)	HKD31.7500-HKD43.5000	12,715,582	14,186,579
	HKD45.5000-HKD90.3000	9,733,781	11,660,539
	HKD128.4000-HKD194.4000	3,706,725	2,948,050
		26,156,088	28,795,168
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD158.5000	1,000,000	1,000,000
		35,918,025	43,164,124

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22 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(3) Fair value of options

The directors of the Company have used the BS Model to determine the fair value of the options granted, which is to be expensed over the vesting period. The weighted average fair value of options granted during the year ended 31 December 2011 was HKD81.69 per option (2010: HKD67.77 per option).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model, which are summarised as below.

	2011	2010
Weighted average share price at the grant dates	HKD191.19	HKD143.66
Risk free rate	1.35% - 2.31%	1.72% - 2.73%
Dividend yield	0.36%	0.63%
Expected volatility (Note)	49.10% - 49.90%	51.10% - 52.10%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

The share options granted during the year ended 31 December 2011 were divided into three or five tranches on an equal basis. The first tranche can be exercised after a specified period ranging from one to four years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

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22 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme

The Company has adopted a share award scheme (the “Share Award Scheme”), which is managed by an independent trustee appointed by the Group (the “Trustee”). The vesting period of the awarded shares is determined by the Board.

Movements in the number of shares held for the Share Award Scheme and awarded shares for the years ended 31 December 2011 and 2010 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2010	10	10,411,424
Purchased	1,184,883	–
Allotted	3,662,975	–
Granted	(4,847,788)	4,847,788
Vested	–	(1,696,478)
	<hr/>	<hr/>
At 31 December 2010	80	13,562,734
	<hr/> <hr/>	<hr/> <hr/>
Exercisable as at 31 December 2010		101,337
		<hr/> <hr/>
At 1 January 2011	80	13,562,734
Purchased and withheld (Note 20)	2,773,810	–
Allotted	4,045,360	–
Granted (Note)	(5,995,410)	5,995,410
Lapsed	1,147,000	(1,147,000)
Vested	–	(2,572,145)
	<hr/>	<hr/>
At 31 December 2011	1,970,840	15,838,999
	<hr/> <hr/>	<hr/> <hr/>
Exercisable as at 31 December 2011		14,406
		<hr/> <hr/>

Note:

During the year ended 31 December 2011, 35,000 awarded shares (2010: Nil) were granted to independent non-executive directors of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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22 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award scheme (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2011 was HKD193.14 per share (2010: HKD137.53 per share). In addition, such awarded shares were divided into two to five tranches on an equal basis. The first tranche can be exercised immediately or after a specified period ranging from six months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

During the year ended 31 December 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to the relevant resolution passed at the 2011 general meeting of the Company. The Board may, at its absolute discretion, select any employees to participate in the EIS by subscribing for partnership interest for consideration. The total cash contribution by selected employees is limited to approximately RMB80,000,000. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS ranging from 4 to 7 years. A wholly-owned subsidiary of the Company acts as a general partner of the EIS to manage, and in essence, control it. The EIS is therefore consolidated by the Company. Further, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expense of which for the year ended 31 December 2011 was considered not material to the Group by the directors of the Company.

(d) Share options and restricted share award scheme adopted by non-wholly owned subsidiaries

Other than the above, certain non-wholly owned subsidiaries (including Riot Games as mentioned in Note 43(a)) of the Company operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches.

The directors of the Company considered that the fair value of share options/restricted shares granted under the share-based compensation plans of the non-wholly owned subsidiaries, and the relevant share-based compensation expenses charged into the income statement of the Group for the year ended 31 December 2011, are not significant to the Group.

Notes to the Consolidated Financial Statements

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22 SHARE-BASED PAYMENTS (Cont'd)

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 31 December 2011, the Expected Retention Rate was assessed to be 91% (31 December 2010: 91%).

23 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
0 - 30 days	1,514,155	975,869
31 - 60 days	351,587	242,547
61 - 90 days	108,337	68,632
Over 90 days	270,035	93,416
	<u>2,244,114</u>	<u>1,380,464</u>

24 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Staff costs and welfare accruals	1,478,391	1,337,627
Marketing and administrative expense accruals	731,571	533,631
Prepayments received from customers and e-commerce business	1,840,947	841,095
Current portions of running royalty fee for online games	315,045	–
Purchase consideration payables for business combinations and associates	252,952	–
Others	395,375	285,455
	<u>5,014,281</u>	<u>2,997,808</u>

Notes to the Consolidated Financial Statements

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25 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Foreign exchange forward contracts - held for trading	20,993	17,964

The Group entered into a number of foreign exchange forward contracts with RMB to purchase a total notional amount of USD475,000,000. The contracted amount of US dollars was equal to the aggregate principal amounts of USD bank borrowings and bonds (details were disclosed in Notes 27(b) and (c)). These forward contracts will mature within one year, and they will be settled at the difference between the forward rates stated in the contracts and the spot rates as at the respective maturity dates, multiplied by the notional amounts of the face value of the contracts.

26 LONG-TERM PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current portion of the present value of running royalty fee for online games	945,135	-
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary (Note 43 (a)(ii))	670,985	-
Purchase consideration payable for business combinations	131,180	-
Others	112,508	-
	1,859,808	-

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27 SHORT-TERM BORROWINGS

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB bank borrowings		
– Secured (Note (a))	2,958,720	990,887
– Unsecured	–	334,440
	2,958,720	1,325,327
USD bank borrowings		
– Unsecured (Note (b))	4,410,630	3,973,620
Bonds		
– Unsecured (Note (c))	630,090	–
	7,999,440	5,298,947

Note:

- (a) Bank borrowings of carrying amounts of RMB2,958,720,000 were secured by pledge of bank deposits of RMB3,071,621,000.
- (b) Unsecured bank borrowings of carrying amount of RMB4,410,630,000 as at 31 December 2011 were denominated in USD. The aggregate principal amount was USD700,000,000 and the interest rates were fixed at 1.43% to 2.09% per annum. In addition, the Group entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling some of the bank borrowings with an aggregate principal amount of USD375,000,000 upon the respective borrowing due dates (Note 25). However, the Group arranged the bank borrowings and the forward contracts with different banks, and the Group did not adopt hedge accounting. As a result, these bank borrowings and the relevant foreign exchange forward contracts were accounted for separately. The bank borrowings were accounted for as USD denominated bank borrowings and stated at amortised cost, while the forward contracts were accounted for as derivative financial instruments stated at fair value with their gains or losses recorded in “Other gains, net” in the consolidated income statement.
- (c) During the year ended 31 December 2011, the Group issued USD denominated unsecured bonds at par value of USD100,000,000 (equivalent to approximately RMB630,090,000). The bonds bear a floating rate of LIBOR plus 0.25% per annum and will mature in March 2012. The Group also entered into foreign exchange forward contracts to purchase the required amount of USD with RMB for settling the principal amount of the bonds upon their due dates (Note 25). The accounting treatments for the bonds and related foreign exchange forward contacts are the same as those mentioned in (b) above.

The fair value of the short-term borrowings approximated to their carrying amounts as at 31 December 2011.

Notes to the Consolidated Financial Statements

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28 LONG-TERM NOTES PAYABLE

On 12 December 2011, the Company completed the issue of long-term notes (the “Notes”) with an initial aggregate principal amount of USD600,000,000 for general corporate purpose. The Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The Notes will mature on 12 December 2016.

The issue price of the Notes is 99.74% of the initial aggregate principal amount. The net proceeds from the issue of the Notes, after deduction of underwriting fees, discounts, commissions and other expenses payable in connection with the issue of the Notes, amounted to approximately USD592,440,000 (equivalent to approximately RMB3,760,928,000).

The Notes are senior unsecured obligations of the Company. The Notes: (1) rank senior in right of payment to all of the Company’s existing and future indebtedness expressly subordinated in right of payment to the Notes; (2) rank at least equally in right of payment with all of the Company’s existing and future unsecured unsubordinated indebtedness (subject to any priority rights pursuant to applicable law); (3) are effectively subordinated to all of the Company’s existing and future secured indebtedness, to the extent of the value of the assets serving as security therefor; and (4) are structurally subordinated to all existing and future indebtedness and other liabilities of the Group.

The Notes are listed on Singapore Exchange Securities Trading Limited. The Notes have been rated “Baa1” by Moody’s Investors Services, Inc. and “BBB+” by Standard & Poor’s Ratings Services, a division of McGraw-Hill Companies, Inc..

29 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain IVAS and MVAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2011. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values.

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30 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2011 and 2010.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	150,211	164,442
– to be recovered within 12 months	47,847	54,577
	<u>198,058</u>	<u>219,019</u>
Deferred income tax liabilities:		
– to be recovered after more than 12 months	(50,461)	(14,633)
– to be recovered within 12 months	(889,073)	(952,578)
	<u>(939,534)</u>	<u>(967,211)</u>

The movements of the deferred income tax assets/liabilities account were as follows:

	2011	2010
	RMB'000	RMB'000
At beginning of the year	(748,192)	(68,967)
Business combinations	(326,434)	(8,691)
Charge to income statement relating to origination and reversal of temporary differences (Note 39(a))	(10,299)	(615,639)
Withholding tax paid in related to the remittance of dividends	339,946	–
Effect of change in tax rates recognised in income statement (Note 39(a))	–	(54,895)
Credit to other comprehensive income	1,048	–
Exchange difference	2,455	–
At end of the year	<u>(741,476)</u>	<u>(748,192)</u>

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30 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets were as follows:

	Deferred tax assets arising from intra-group software and technology sales	Deferred tax assets arising from change in fair value of available- for -sale financial assets	Total
	RMB'000	RMB'000	RMB'000
	(Note)		
At 1 January 2010	301,016	–	301,016
Credit to income statement relating to origination of temporary differences	29,709	–	29,709
Effect of change in tax rates recognised in income statement	(54,895)	–	(54,895)
Charge to income statement relating to reversal of temporary differences	(56,811)	–	(56,811)
At 31 December 2010	<u>219,019</u>	<u>–</u>	<u>219,019</u>
At 1 January 2011	219,019	–	219,019
Credit to income statement relating to origination of temporary differences	32,832	–	32,832
Charge to income statement relating to reversal of temporary differences	(54,841)	–	(54,841)
Credit to other comprehensive income	–	1,048	1,048
At 31 December 2011	<u>197,010</u>	<u>1,048</u>	<u>198,058</u>

Note:

The deferred tax assets recognised are mainly related to the temporary differences arising from certain intra-group software and technology transfer transactions (Note 4.2). The credit to income statement represents tax impacts of originating temporary differences arising from these software and technology transfer, while the charge to income statement represents tax impacts of the reversal of the temporary differences as a result of the amortisation of the costs of these software and technology.

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30 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2011, the Group did not recognise deferred income tax assets of RMB347,355,000 (2010: RMB66,459,000) in respect of cumulative tax losses amounting to RMB1,102,264,000 (2010: RMB265,836,000). These tax losses will expire from 2012 to 2016.

The movements of deferred tax liabilities were as follows:

	Intangible assets acquired in business combinations at fair value RMB'000	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries RMB'000 (Note)	Total RMB'000
At 1 January 2010	(19,983)	(350,000)	(369,983)
Business combinations	(8,691)	–	(8,691)
Credit /(charge) to income statement relating to origination of temporary differences	6,625	(595,162)	(588,537)
At 31 December 2010	<u>(22,049)</u>	<u>(945,162)</u>	<u>(967,211)</u>
At 1 January 2011	(22,049)	(945,162)	(967,211)
Business combinations	(326,434)	–	(326,434)
Credit/(charge) to income statement relating to origination and reversal of temporary differences	234,210	(222,500)	11,710
Withholding tax paid in related to the remittance of dividends	–	339,946	339,946
Exchange difference	2,455	–	2,455
At 31 December 2011	<u>(111,818)</u>	<u>(827,716)</u>	<u>(939,534)</u>

Note:

According to applicable PRC tax regulations, withholding tax will be levied on the dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 (Note 39 (a) (v)).

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30 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2011, the Group recognised the relevant deferred tax liabilities of RMB827,716,000 (2010: RMB945,162,000) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB4,264,270,000 (2010: RMB3,610,269,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

31 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (Note 2.24(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred in deriving the revenues.

32 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current deposit, restricted cash, term deposits with initial term of three months or less, and term deposits with initial term of over three months.

33 OTHER GAINS, NET

	2011	2010
	RMB'000	RMB'000
Gains on deemed disposal of associates (Note 43)	708,486	–
Government subsidies	101,406	96,537
Losses from derivative financial instruments	(96,790)	(17,964)
Donation to a charity fund established by the Group	(100,000)	(70,000)
(Losses)/gains on disposal of fixed assets	(1,694)	883
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	(243,000)	–
Others	52,395	28,600
	<u>420,803</u>	<u>38,056</u>

Notes to the Consolidated Financial Statements

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34 EXPENSES BY NATURE

	2011 RMB'000	2010 RMB'000
Employee benefits expenses (Note)/(Note 35)	4,865,744	3,143,967
Mobile and telecommunications charges and bandwidth and server custody fees	2,627,106	2,089,273
Content costs and agency fees	4,843,784	2,797,872
Promotion and advertising expenses	1,403,699	557,601
Depreciation of fixed assets (Note)/(Note 6)	1,207,732	668,580
Amortisation of intangible assets (Note 10)	726,221	109,411
Amortisation of land use rights (Note 9)	4,925	3,724
Travelling and entertainment expenses	224,748	124,320
Operating lease rentals in respect of office buildings	342,957	116,378
Auditor's remunerations:		
– Audit services	10,760	8,000
– Non-audit services	7,575	3,564
Other expenses	867,064	479,106
	<u>17,132,315</u>	<u>10,101,796</u>

Note:

Research and development expenses for the year ended 31 December 2011 were RMB2,684,821,000 (2010: RMB1,685,525,000) which included employee benefit expenses of RMB2,243,793,000 (2010: RMB1,407,948,000) and depreciation of fixed assets of RMB287,968,000 (2010: RMB194,090,000).

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35 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2011	2010
	RMB'000	RMB'000
Wages, salaries and bonuses	3,450,307	2,223,725
Welfare, medical and other expenses	247,109	207,495
Share-based compensation expenses	814,771	495,772
Contributions to pension plans (Note)	321,801	197,238
Training expenses	31,756	19,737
	<u>4,865,744</u>	<u>3,143,967</u>

Note:

All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contribution to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

	Percentage
Pension insurance	10% – 22%
Medical insurance	6% – 12%
Unemployment insurance	0% – 2%
Housing fund	10% – 12%

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36 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid/payable to directors of the Company for the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
	RMB'000	RMB'000
Fees - independent non-executive directors	2,053	2,157
Salaries, bonuses, allowances and benefits in kind	44,622	39,919
Contributions to pension plans	108	48
Share-based compensation expenses charged to income statement	20,474	21,796
	67,257	63,920
Number of directors		
– with emoluments	6	6
– without emoluments	2	2
Number of directors	8	8

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36 DIRECTORS' EMOLUMENTS (Cont'd)

The remuneration of every director for the year ended 31 December 2011 is set out below.

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits	Contributions to pension plans	Share-based compensation expenses	Total RMB'000
		in kind RMB'000	RMB'000	RMB'000	
Ma Huateng	–	20,615	54	–	20,669
Zhang Zhidong	–	14,741	54	–	14,795
Lau Chi Ping Martin	756	9,266	–	18,564	28,586
Iain Ferguson Bruce	567	–	–	1,059	1,626
Ian Charles Stone	365	–	–	806	1,171
Li Dong Sheng	365	–	–	45	410
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	<u>2,053</u>	<u>44,622</u>	<u>108</u>	<u>20,474</u>	<u>67,257</u>

The remuneration of every director for the year ended 31 December 2010 is set out below.

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits	Contributions to pension plans	Share-based compensation expenses	Total RMB'000
		in kind RMB'000	RMB'000	RMB'000	
Ma Huateng	–	18,419	24	–	18,443
Zhang Zhidong	–	13,282	24	–	13,306
Lau Chi Ping Martin	795	8,218	–	21,523	30,536
Iain Ferguson Bruce	596	–	–	91	687
Ian Charles Stone	383	–	–	91	474
Li Dong Sheng	383	–	–	91	474
Antonie Andries Roux	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	<u>2,157</u>	<u>39,919</u>	<u>48</u>	<u>21,796</u>	<u>63,920</u>

Notes to the Consolidated Financial Statements

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36 DIRECTORS' EMOLUMENTS (Cont'd)

During the year ended 31 December 2011, 35,000 awarded shares were granted to independent non-executive directors (2010: 1,000,000 share options were granted to Mr Lau Chi Ping, Martin). Other than that, no options/awarded shares were granted to other executive, non-executive or independent non-executive directors of the Company (2010: Nil).

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the year ended 31 December 2011 (2010: Nil).

37 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group during the year included two (2010: two) directors whose details have been reflected in the analysis presented in Note 36. The emoluments paid/payable to the remaining three (2010: three) individuals during the year were as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	33,661	28,832
Share-based compensation expenses		
charged to income statement	21,378	22,042
Contributions to pension plans	160	70
	55,199	50,944

The emoluments of the above three individuals (2010: three) fell within the following bands:

	Number of individuals	
	2011	2010
Emolument bands		
HKD16,000,001 – HKD16,500,000	–	1
HKD18,500,001 – HKD19,000,000	1	–
HKD21,000,001 – HKD21,500,000	–	2
HKD22,000,001 – HKD22,500,000	1	–
HKD25,000,001 – HKD25,500,000	1	–

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38 FINANCE INCOME/(COSTS), NET

	2011	2010
	RMB'000	RMB'000
Exchange gains	108,042	34,189
Interest and related expenses	<u>(72,537)</u>	<u>(35,027)</u>
	<u><u>35,505</u></u>	<u><u>(838)</u></u>

Interest expenses mainly arose from the short-term borrowings and long-term notes mentioned in Note 27 and Note 28, respectively.

39 TAX EXPENSE

(a) Income tax

(i) Cayman Islands and British Virgin Islands profits tax

The Group was not subject to any taxation in these jurisdictions for the year ended 31 December 2011 (2010: Nil).

(ii) Hong Kong profits tax

No Hong Kong profits tax provision was made for the year ended 31 December 2011 (2010: Nil).

(iii) PRC Corporate Income Tax ("CIT")

CIT provision was made on the assessable income of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

The CIT Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation of the CIT Law and which were entitled to preferential income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the "Circular to Implementation of the Transitional Preferential Policies for the Corporate Income Tax". Pursuant to this circular, the transitional CIT rates for the Group's subsidiaries established in the Shenzhen Special Economic Zone or the Beijing High Technology Zone before 16 March 2007 are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. Other tax preferential treatments such as reduction of 50% in income tax rates shall be based on the above transitional income tax rates for the respective years.

Notes to the Consolidated Financial Statements

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39 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

(iii) PRC Corporate Income Tax ("CIT") (Cont'd)

In 2011, certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law.

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

(iv) United States corporate income tax

No United States corporate income tax provision was made for the year ended 31 December 2011 (2010: Nil).

(v) PRC withholding tax

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The income tax expense of the Group for the years ended 31 December 2011 and 2010 are analysed as follows:

	2011	2010
	RMB'000	RMB'000
Current tax	1,863,939	1,127,390
Deferred income tax (Note 30)	10,299	670,534
	<u>1,874,238</u>	<u>1,797,924</u>

Notes to the Consolidated Financial Statements

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39 TAX EXPENSE (Cont'd)

(a) Income tax (Cont'd)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 24% for the year ended 31 December 2011 (2010: 22%), being the tax rate of the major subsidiaries of the Company before preferential tax treatments. The difference is analysed as follows:

	2011	2010
	RMB'000	RMB'000
Profit before income tax	12,099,069	9,913,133
Add: Share of losses/(profit) of associates and jointly controlled entities	<u>189,986</u>	<u>(75,758)</u>
	<u>12,289,055</u>	<u>9,837,375</u>
Tax calculated at a tax rate of 24% (2010: 22%)	2,949,373	2,164,223
Effects of different tax rates available to different subsidiaries of the Group	(1,087,518)	(575,213)
Effect of tax holiday on assessable profits of subsidiaries	(464,371)	(556,561)
Effect of changes in tax rates (Note 30)	–	54,895
Income not subject to tax	(13,752)	(29,217)
Expenses not deductible for tax purposes	186,196	110,391
Adjustments in respect of prior year	(62,244)	5,869
Withholding tax on earnings expected to be remitted by PRC subsidiaries (Note 30)	222,500	595,162
Unrecognised deferred income tax assets	<u>144,054</u>	<u>28,375</u>
Income tax expense	<u><u>1,874,238</u></u>	<u><u>1,797,924</u></u>

Notes to the Consolidated Financial Statements

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39 TAX EXPENSE (Cont'd)

(b) Value-added tax, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	17%	Sales value of goods sold, offsetting by VAT on purchases
	3%	Sales value of goods sold
Business tax ("BT")	3% - 5%	Services fee income
City construction tax	1% - 7%	Net VAT and BT payable amount
Educational surcharge	3% - 5%	Net VAT and BT payable amount

40 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2011 is dealt with in the financial statements of the Company to the extent of RMB1,279,795,000 (2010: loss of RMB59,255,000).

41 EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to equity holders of the Company for the year (RMB'000)	<u>10,203,083</u>	<u>8,053,625</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,818,966</u>	<u>1,816,954</u>
Basic EPS (RMB per share)	<u><u>5.609</u></u>	<u><u>4.432</u></u>

Notes to the Consolidated Financial Statements

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41 EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the year ended 31 December 2011, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	2011	2010
Profit attributable to equity holders of the Company for the year (RMB'000)	<u>10,203,083</u>	<u>8,053,625</u>
Weighted average number of ordinary shares in issue (thousand shares)	1,818,966	1,816,954
Adjustments for share options (thousand shares)	28,897	35,252
Adjustments for awarded shares (thousand shares)	<u>10,683</u>	<u>8,777</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	<u>1,858,546</u>	<u>1,860,983</u>
Diluted EPS (RMB per share)	<u><u>5.490</u></u>	<u><u>4.328</u></u>

42 DIVIDEND

The dividend paid in 2011 was RMB838,290,000 (2010: RMB639,264,000), which excluded the dividend of RMB6,720,000 (2010: RMB3,717,000) related to the shares held by the Share Scheme Trust for the purposes of the Share Award Scheme.

A final dividend in respect of the year ended 31 December 2011 of HKD0.75 per share (2010: HKD0.55 per share) was proposed pursuant to a resolution passed by the Board on 14 March 2012 and subject to the approval of the shareholders at the annual general meeting to be held on 16 May 2012. The consolidated financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements

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43 BUSINESS COMBINATIONS

(a) The Riot Games Acquisition

(i) Step-up business combination

On 18 February 2011 (the “Closing Date”), the Group acquired a majority equity interest in Riot Games from its existing stakeholders including the founders of Riot Games, for a cash consideration of USD231,465,000 (equivalent to approximately RMB1,524,632,000), together with other cash and non-cash consideration related to the put options mentioned below. Immediately before the Riot Games Acquisition, the Group held 22.34% equity interest (the “Previously Held Interest”) in Riot Games and it was reported as an investment in associate. Immediately after the Riot Games Acquisition, the Group held 8,209,473 shares, representing 92.78% equity interest in Riot Games. Riot Games operates a stock plan established before the Closing Date, pursuant to which, Riot Games may grant share options or special restricted share units (“RSUs”) to its eligible employees (the “Eligible Persons”). As at the Closing Date, all share options and RSUs held by the Eligible Persons, both vested and unvested, amounted to a total of 2,040,456 shares in addition to the issued shares. In addition, according to the stock plan, 2,009,000 share options or RSUs may be further granted to the Eligible Persons as appropriate. After the Riot Games Acquisition, Riot Games was accounted for as a subsidiary of the Company. Riot Games continues to operate independently under the leadership of its founders and local management team.

Goodwill of RMB1,932,376,000 was recognised as a result of the Riot Games Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations of the Group and Riot Games. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interest in Riot Games (the “Non-controlling interests”) at fair value on the Closing Date, which was estimated by making reference to the above purchase price paid for Riot Games Acquisition. The following table summarises the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed or recognised as at the Closing Date.

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43 BUSINESS COMBINATIONS (Cont'd)

(a) The Riot Games Acquisition (Cont'd)

(i) Step-up business combination (Cont'd)

	RMB'000
Considerations:	
Cash consideration paid/payable for additional equity interest in Riot Games	1,524,632
Deemed consideration arising from the grant of put options on Riot Games' existing share options	154,732
Total considerations	1,679,364
Fair value of the Previously Held Interest	576,539
Fair value of the Non-controlling interests	187,092
	<u>2,442,995</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	101,135
Fixed assets	14,690
Existing game licenses and other acquired intangible assets	671,803
Deferred revenue	(2,627)
Other payables and accruals	(4,589)
Deferred income tax liabilities (Note 30)	(269,793)
Total identifiable net assets	510,619
Goodwill	1,932,376
	<u>2,442,995</u>
Acquisition-related costs (Note)	<u>54,400</u>

Note:

The acquisition-related costs were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

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43 BUSINESS COMBINATIONS (Cont'd)

(a) The Riot Games Acquisition (Cont'd)

(i) Step-up business combination (Cont'd)

The Riot Games Acquisition was treated as a step-up business combination. As a result, a deemed disposal gain of RMB459,037,000, being the difference between the fair value of the Previously Held Interest as at the Closing Date and its then carrying value of RMB117,502,000, was recorded as "Other gains, net" in the consolidated income statement for the year ended 31 December 2011 (Note 33).

For the period from the Closing Date to 31 December 2011, Riot Games contributed revenues of RMB413,010,000 and a net loss of RMB821,375,000 to the Group, which included expenses arising from the Riot Games Acquisition, including amortisation of intangible assets acquired, related deferred tax impact and share-based compensation related to the arrangements mentioned below. The revenue and net loss contributed by Riot Games to the Group would not be materially different from the aforesaid reported figures if the Riot Games Acquisition had occurred on 1 January 2011.

(ii) Other arrangements associated with the Riot Games Acquisition

In connection with the Riot Games Acquisition, the Group offered, among others, certain share options and RSUs of Riot Games to the Eligible Persons before the Closing Date. Certain Eligible Persons were also granted by the Group cash bonus and put options so that they are entitled to sell to the Group their respective retained equity interests in Riot Games, and all the Eligible Persons are entitled to sell to the Group their shares acquired after the exercise of the vested share options and RSUs granted on or before the Closing Date by Riot Games. These put options will be exercisable for a period of up to 10 years following the Closing Date, subject to certain conditions.

The grant of the put options on the share options owned by the Eligible Persons before the acquisition (the "Existing Share Options") was accounted for as a modification of the options as at the Riot Games Acquisition. The portion of fair value of the Existing Share Options, assessed at the Closing Date, attributable to the service period before the acquisition (amounting to RMB154,732,000) was treated as part of the purchase consideration of the acquisition. The remaining portion of the fair value will be recorded as employee costs throughout the future vesting period.

In addition, the grant of share options and RSUs of Riot Games, together with the put feature mentioned above, as at the Closing Date have been accounted for as a grant of a compound instrument granted to the Eligible Persons. They are accounted for as employee costs throughout the vesting period.

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43 BUSINESS COMBINATIONS (Cont'd)

(a) The Riot Games Acquisition (Cont'd)

- (ii) Other arrangements associated with the Riot Games Acquisition (Cont'd)

The aforesaid cash bonus and share-based compensation expense recorded as employee costs in the consolidated income statement for the year ended 31 December 2011 were not material.

The grant of the put options for the retained interest of the Eligible Persons was accounted for as a transaction undertaken with the non-controlling shareholders. The Group recognised, as at the Closing Date, the relevant financial liabilities based on the present value of estimated future cash out flow that the Group is required to honour the put option obligations, together with a debit to other reserve within equity of the Group.

(b) The Gamegoo Acquisition

On 4 November 2011 (the "Gamegoo Closing Date"), the Group acquired ordinary shares representing an additional 15% equity interest in Gamegoo Group Limited ("Gamegoo") from its existing shareholders for a cash consideration of RMB134,878,000 (the "Gamegoo Acquisition"). Gamegoo is a China-based online game developer. Before the Gamegoo Acquisition, the Group held 37% preference shares and 13% ordinary shares in Gamegoo's issued share capital and it was accounted for as an associate of the Group. After the Gamegoo Acquisition, the Group held 62.5% equity interest on a fully diluted basis in Gamegoo and Gamegoo started to be accounted for as a subsidiary of the Company.

Goodwill of RMB401,678,000 was recognised as a result of the Gamegoo Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining operations of the Group and Gamegoo. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group chose to record the non-controlling equity interests in Gamegoo at fair value on the Gamegoo Closing Date, which was estimated by making reference to the purchase price paid for the Gamegoo Acquisition. The following table summarises the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed or recognised as at the Gamegoo Closing Date.

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43 BUSINESS COMBINATIONS (Cont'd)

(b) The Gamegoo Acquisition (Cont'd)

	RMB'000
Consideration:	
Cash consideration paid for additional equity interest	134,878
Fair value of the interest previously held by the Group	389,532
Fair value of the non-controlling interests	239,901
	<hr/>
	764,311
	<hr/> <hr/>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Current assets	136,293
Fixed assets	3,700
Existing game licenses and other acquired intangible assets	283,910
Other payables and accruals	(18,745)
Deferred income tax liabilities (Note 30)	(42,525)
	<hr/>
Total identifiable net assets	362,633
Goodwill	401,678
	<hr/>
	764,311
	<hr/> <hr/>
Acquisition-related costs (Note)	324
	<hr/> <hr/>

Note:

The acquisition-related costs were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

The Gamegoo Acquisition was treated as a step-up business combination. As a result, a deemed disposal gain of RMB249,449,000, being the difference between the fair value of the interest previously held by the Group as at the Gamegoo Closing Date and its then carrying value of RMB140,083,000, was recorded as "Other gains, net" in the consolidated income statement for the year ended 31 December 2011 (Note 33).

For the period from the Gamegoo Closing Date to 31 December 2011, Gamegoo contributed revenues of RMB42,587,000 and a net profit of RMB22,581,000 to the Group, which included expenses arising from the Gamegoo Acquisition, including amortisation of intangible assets acquired and the related deferred tax impact. The revenue and net profit contributed by Gamegoo to the Group would be RMB228,019,000 and RMB129,269,000, respectively, if the Gamegoo Acquisition had occurred on 1 January 2011.

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43 BUSINESS COMBINATIONS (Cont'd)

(c) Acquisition of 100% equity interest in another three companies

During the year ended 31 December 2011, the Group acquired 100% equity interests in a mobile security software development company, an Internet service providing company and a mobile synchronisation software company respectively.

The aggregate considerations and the allocation of such considerations to the fair value of the net assets acquired and goodwill recognised as at the dates of these acquisitions are as follows:

	RMB'000
Purchase considerations	102,800
Fair value of net assets acquired	44,859
Goodwill	57,941
	102,800

The revenues and net profits contributed by these three subsidiaries from their respective acquisition dates to 31 December 2011 to the Group were not material.

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44 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to net cash inflow from operating activities:

	2011 RMB'000	2010 RMB'000
Profit for the year	10,224,831	8,115,209
Adjustments for:		
Income tax expense	1,874,238	1,797,924
Gains on deemed disposal of associates	(708,486)	–
Depreciation of fixed assets and investment properties	1,208,261	669,860
Amortisation of intangible assets	726,221	109,411
Amortisation of land use rights	4,925	3,724
Losses/(gains) on disposals of fixed assets	1,694	(883)
Losses from derivative financial liabilities	96,790	17,964
Interest income	(468,990)	(255,922)
Share-based compensation expenses	732,691	495,772
Share of losses/(profit) of associates	24,255	(72,359)
Share of losses/(profit) of jointly controlled entities	165,731	(3,399)
Impairment provision for available-for-sale financial assets, associates and jointly controlled entities	243,000	–
Exchange gains	(108,042)	(34,189)
Changes in working capital:		
Accounts receivable	(250,693)	(483,712)
Prepayments, deposits and other receivables	(2,630,368)	(51,936)
Long-term payables	1,057,643	(179,804)
Accounts payable	827,573	478,330
Other payables and accruals	1,816,339	1,551,226
Other tax liabilities	(45,689)	9,942
Restricted cash	(1,850,652)	–
Deferred revenue	2,253,098	1,024,570
Net cash generated from operating activities	<u>15,194,370</u>	<u>13,191,728</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

44 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to net cash inflow from operating activities: (Cont'd)

In the consolidated cash flow statement, proceeds from disposals of fixed assets comprise:

	2011 RMB'000	2010 RMB'000
Net book amount	2,293	691
(Losses)/gains on disposals of fixed assets	(1,694)	883
	<hr/>	<hr/>
Proceeds from disposals of fixed assets	<u>599</u>	<u>1,574</u>

(b) Major non-cash transactions

There were no material non-cash transactions for the year ended 31 December 2011.

45 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

46 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2011 and 2010 are analysed as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted:		
Construction/purchase of building and purchase of land use rights	463,046	211,558
Purchase of other fixed assets	132,260	135,165
Capital investment in investees	816,910	100,996
	1,412,216	447,719
Authorised but not contracted:		
Construction/purchase of building and purchase of land use rights	1,186,867	373,277
Capital investment in investees	651,927	385,000
	1,838,794	758,277
	3,251,010	1,205,996

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted:		
Not later than one year	520,396	236,343
Later than one year and not later than five years	1,462,788	572,818
Later than five years	286,135	18,845
	2,269,319	828,006

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

46 COMMITMENTS (Cont'd)

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted:		
Not later than one year	596,031	1,064,792
Later than one year and not later than five years	768,291	1,981,543
	<u>1,364,322</u>	<u>3,046,335</u>

47 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 17 (loans to associates and jointly controlled entity), Note 22 (Share options and share award scheme) and Note 36 (Directors' emoluments) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2011, and no other related parties' balances as at 31 December 2011. The key management compensation has already been disclosed in Note 36 (Directors' emoluments).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

48 SUBSEQUENT EVENTS

- (a) On 19 January 2012, the Group entered into sales and purchase agreement (the “Level Up SPA”) with a related party, pursuant to which, the Group agreed to purchase 320,722 shares of Level Up! International Holdings Pte. Ltd. (“Level Up”), representing 49% of its issued share capital at the date of Level Up SPA, with a cash consideration of USD26,950,000 (equivalent to approximately RMB169,567,000) (the “Level Up Acquisition”). On the same date, the Group entered into a call option agreement, pursuant to which, the Group was granted an option to acquire such number of shares in Level Up that, together with the shares acquired pursuant to the Level Up SPA, will represent 67% of the issued share capital of Level Up as of the date of the exercise of the option. Closing of the Level Up Acquisition is subject to certain conditions, which have not been fulfilled at the date of this annual report. Level Up, through its operating subsidiaries and affiliates in Brazil and the Philippines and through its joint-venture in the United States, is principally engaged in online game and game magazine publishing. Upon the completion of the acquisition, Level Up will be accounted for as a subsidiary of the Company.
- (b) On 31 January 2012, the Group acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited (“ChinaVision”), representing approximately 8% of its total outstanding shares on a fully diluted basis, for a cash consideration of HKD247,760,000 (equivalent to approximately RMB201,578,000). ChinaVision is principally engaged in production and licensing of film and television programmes, and printed media and television advertising business.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2014

		Unaudited	Audited
		30 September	31 December
		2014	2013
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Fixed assets		8,231	8,693
Construction in progress		2,806	2,041
Investment properties		269	—
Land use rights		822	871
Intangible assets		4,331	4,103
Interests in associates	3	49,817	12,170
Investments in joint ventures		18	9
Deferred income tax assets		289	431
Available-for-sale financial assets	4	13,735	12,515
Prepayments, deposits and other assets		1,194	1,296
Term deposits		4,931	11,420
		<u>86,443</u>	<u>53,549</u>
Current assets			
Inventories		154	1,384
Accounts receivable	5	4,293	2,955
Prepayments, deposits and other assets		7,660	5,365
Term deposits		17,195	19,623
Restricted cash		6,696	4,131
Cash and cash equivalents		33,454	20,228
		<u>69,452</u>	<u>53,686</u>
Total assets		<u><u>155,895</u></u>	<u><u>107,235</u></u>

		Unaudited	Audited
		30 September	31 December
		2014	2013
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		4,062	2,846
Shares held for share award schemes		(1,312)	(871)
Other reserves		3,623	3,746
Retained earnings		<u>68,413</u>	<u>52,224</u>
		74,786	57,945
Non-controlling interests		<u>608</u>	<u>518</u>
Total equity		<u>75,394</u>	<u>58,463</u>
LIABILITIES			
Non-current liabilities			
Borrowings	7	5,537	3,323
Notes payable	8	24,207	9,141
Deferred income tax liabilities		2,176	1,441
Long-term payables		1,272	1,600
Deferred revenue		<u>3,732</u>	<u>—</u>
		36,924	15,505
Current liabilities			
Accounts payable	9	7,441	6,680
Other payables and accruals		14,966	10,246
Borrowings	7	2,710	2,589
Notes payable	8	1,843	—
Current income tax liabilities		1,123	1,318
Other tax liabilities		541	593
Deferred revenue		<u>14,953</u>	<u>11,841</u>
		43,577	33,267
Total liabilities		<u>80,501</u>	<u>48,772</u>
Total equity and liabilities		<u>155,895</u>	<u>107,235</u>
Net current assets		<u>25,875</u>	<u>20,419</u>
Total assets less current liabilities		<u>112,318</u>	<u>73,968</u>

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2014**

		Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30 September		30 September	
		2014	2013	2014	2013
Note	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenues					
		16,047	11,635	46,173	33,053
		2,440	1,390	5,681	3,537
		459	2,359	4,307	6,472
		862	151	1,793	405
		19,808	15,535	57,954	43,467
Cost of revenues	11	<u>(7,167)</u>	<u>(7,036)</u>	<u>(22,541)</u>	<u>(19,580)</u>
Gross profit		12,641	8,499	35,413	23,887
Interest income		452	336	1,233	937
Other gains, net	10	118	66	2,416	499
Selling and marketing expenses	11	(1,906)	(1,465)	(5,734)	(3,662)
General and administrative expenses	11	<u>(3,790)</u>	<u>(2,621)</u>	<u>(10,180)</u>	<u>(7,218)</u>
Operating profit		7,515	4,815	23,148	14,443
Finance costs, net		(317)	(22)	(909)	(90)
Share of (losses)/profits of associates and joint ventures		<u>(139)</u>	39	<u>(72)</u>	189
Profit before income tax		7,059	4,832	22,167	14,542
Income tax expense	12	<u>(1,383)</u>	<u>(955)</u>	<u>(4,233)</u>	<u>(2,910)</u>
Profit for the period		<u>5,676</u>	<u>3,877</u>	<u>17,934</u>	<u>11,632</u>

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2014 RMB'Million	2013 RMB'Million	2014 RMB'Million	2013 RMB'Million
Attributable to:					
Equity holders of the Company		5,657	3,867	17,950	11,591
Non-controlling interests		<u>19</u>	<u>10</u>	<u>(16)</u>	<u>41</u>
		<u>5,676</u>	<u>3,877</u>	<u>17,934</u>	<u>11,632</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)					
			Restated		Restated
- basic	13	<u>0.612</u>	<u>0.421</u>	<u>1.948</u>	<u>1.264</u>
- diluted	13	<u>0.605</u>	<u>0.414</u>	<u>1.918</u>	<u>1.242</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2014**

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit for the period	<u>5,676</u>	<u>3,877</u>	<u>17,934</u>	<u>11,632</u>
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income of associates	30	—	43	—
Net (losses)/gains from changes in fair value of available-for-sale financial assets	(959)	2,233	(266)	1,995
Currency translation differences	<u>(15)</u>	<u>30</u>	<u>(9)</u>	<u>(10)</u>
	<u>(944)</u>	<u>2,263</u>	<u>(232)</u>	<u>1,985</u>
Total comprehensive income for the period	<u><u>4,732</u></u>	<u><u>6,140</u></u>	<u><u>17,702</u></u>	<u><u>13,617</u></u>
Attributable to:				
Equity holders of the Company	4,711	6,128	17,708	13,581
Non-controlling interests	<u>21</u>	<u>12</u>	<u>(6)</u>	<u>36</u>
	<u><u>4,732</u></u>	<u><u>6,140</u></u>	<u><u>17,702</u></u>	<u><u>13,617</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

	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 2014	-	2,846	(871)	3,746	52,224	57,945	518	58,463
Comprehensive income								
Profit for the period	-	-	-	-	17,950	17,950	(16)	17,934
Other comprehensive income:								
- share of other comprehensive income of associates	-	-	-	43	-	43	-	43
- net losses from changes in fair value of available-for-sale financial assets	-	-	-	(266)	-	(266)	-	(266)
- currency translation differences	-	-	-	(19)	-	(19)	10	(9)
Total comprehensive income for the period	-	-	-	(242)	17,950	17,708	(6)	17,702
Transaction with owners								
Capital injection	-	-	-	-	-	-	44	44
Employee share option schemes:								
- value of employee services	-	118	-	88	-	206	19	225
- proceeds from shares issued	-	244	-	-	-	244	-	244
Employee share award schemes:								
- value of employee services	-	979	-	97	-	1,076	6	1,082
- shares purchased for Share Award Schemes	-	-	(505)	-	-	(505)	-	(505)
- vesting of awarded shares	-	(64)	64	-	-	-	-	-
Repurchase and cancellation of shares	-	(61)	-	-	-	(61)	-	(61)
Dividends (Note 14)	-	-	-	-	(1,761)	(1,761)	(119)	(1,880)
Total contributions by and distributions to owners for the period	-	1,216	(441)	185	(1,761)	(801)	(50)	(851)
Non-controlling interests arising from business combination	-	-	-	-	-	-	106	106
Disposal of equity interests in non-wholly owned subsidiaries	-	-	-	230	-	230	4	234
Acquisition of additional equity interests in non-wholly owned subsidiaries	-	-	-	(653)	-	(653)	36	(617)
Settlement of financial liabilities in respect of the put option granted to non-controlling interests owners	-	-	-	357	-	357	-	357
Total transactions with owners for the period	-	1,216	(441)	119	(1,761)	(867)	96	(771)
Balance at 30 September 2014	-	4,062	(1,312)	3,623	68,413	74,786	608	75,394

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 2013	—	2,880	(667)	816	38,269	41,298	850	42,148
Comprehensive income								
Profit for the period	—	—	—	—	11,591	11,591	41	11,632
Other comprehensive income:								
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	1,995	—	1,995	—	1,995
- currency translation differences	—	—	—	(5)	—	(5)	(5)	(10)
Total comprehensive income for the period	—	—	—	1,990	11,591	13,581	36	13,617
Transaction with owners								
Capital injection	—	—	—	—	—	—	5	5
Employee share option schemes:								
- value of employee services	—	66	—	47	—	113	6	119
- proceeds from shares issued	—	234	—	—	—	234	—	234
Employee share award schemes:								
- value of employee services	—	747	—	17	—	764	2	766
- shares purchased for Share Award Schemes	—	—	(261)	—	—	(261)	—	(261)
- vesting of awarded shares	—	(70)	70	—	—	—	—	—
Repurchase and cancellation of shares	—	(1,323)	—	—	—	(1,323)	—	(1,323)
Dividends	—	—	—	—	(1,468)	(1,468)	(60)	(1,528)
Total contributions by and distributions to owners for the period	—	(346)	(191)	64	(1,468)	(1,941)	(47)	(1,988)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	(57)	—	(57)	(33)	(90)
Total transactions with owners for the period	—	(346)	(191)	7	(1,468)	(1,998)	(80)	(2,078)
Balance at 30 September 2013	—	2,534	(858)	2,813	48,392	52,881	806	53,687

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014**

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	22,032	17,510
Net cash flows used in investing activities	(25,623)	(13,984)
Net cash flows generated from financing activities	<u>16,937</u>	<u>1,852</u>
Net increase in cash and cash equivalents	13,346	5,378
Cash and cash equivalents at beginning of period	20,228	13,383
Exchange losses on cash and cash equivalents	<u>(120)</u>	<u>(158)</u>
Cash and cash equivalents at end of period	<u>33,454</u>	<u>18,603</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	11,904	10,642
Term deposits and highly liquid investments with initial term within three months	<u>21,550</u>	<u>7,961</u>
	<u>33,454</u>	<u>18,603</u>

Note:

1 General information, basis of preparation and presentation

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

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

The consolidated statement of financial position as at 30 September 2014, the related consolidated income statement and 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 (collectively defined as the “Interim Financial Information”) of the Group have been approved by the Board on 12 November 2014.

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

The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2013 as set out in the 2013 annual report of the Company dated 19 March 2014 (the “2013 Financial Statements”).

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2013 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of assets and liabilities stated at fair value, such as available-for-sale financial assets.

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

The following amendments to standards and interpretation adopted by the Group, which are mandatory for the financial year of the Group beginning 1 January 2014, have no material impact on the Group’s Interim Financial Information.

Amendment to IAS 32	Financial instruments: Presentation
Amendment to IAS 39	Financial Instruments: Recognition and Measurement
Amendments to IFRS 10, 12 and IAS 27	Consolidation for investment entities
IFRIC 21	Levies

2 Segment information

The Group has the following reportable segments for the three and nine months ended 30 September 2014 and 2013:

- VAS;
- Online advertising;
- eCommerce transactions; and
- Others

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

There were no material inter-segment sales during the three and nine months ended 30 September 2014 and 2013. 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 2014 and 2013 is as follows:

	Unaudited				
	Three months ended 30 September 2014				
	VAS	Online advertising	eCommerce transactions	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>16,047</u>	<u>2,440</u>	<u>459</u>	<u>862</u>	<u>19,808</u>
Gross profit	<u>10,722</u>	<u>1,263</u>	<u>113</u>	<u>543</u>	<u>12,641</u>
Depreciation	488	40	3	6	537
Amortisation	82	334	–	–	416
Share of (losses)/profits of associates and joint ventures	<u>(68)</u>	<u>(92)</u>	<u>(78)</u>	<u>99</u>	<u>(139)</u>

	Unaudited				
	Three months ended 30 September 2013				
	VAS	Online	eCommerce	Others	Total
RMB'Million	advertising	transactions	RMB'Million	RMB'Million	
Segment revenues	<u>11,635</u>	<u>1,390</u>	<u>2,359</u>	<u>151</u>	<u>15,535</u>
Gross profit	<u>7,566</u>	<u>728</u>	<u>139</u>	<u>66</u>	<u>8,499</u>
Depreciation	430	36	4	5	475
Amortisation	64	72	–	–	136
Share of profits/(losses) of associates and joint ventures	<u>33</u>	<u>–</u>	<u>(22)</u>	<u>28</u>	<u>39</u>

	Unaudited				
	Nine months ended 30 September 2014				
	VAS	Online	eCommerce	Others	Total
RMB'Million	advertising	transactions	RMB'Million	RMB'Million	
Segment revenues	<u>46,173</u>	<u>5,681</u>	<u>4,307</u>	<u>1,793</u>	<u>57,954</u>
Gross profit	<u>31,722</u>	<u>2,598</u>	<u>123</u>	<u>970</u>	<u>35,413</u>
Depreciation	1,429	117	11	17	1,574
Amortisation	171	932	–	–	1,103
Share of (losses)/profits of associates and joint ventures	<u>31</u>	<u>(131)</u>	<u>(254)</u>	<u>282</u>	<u>(72)</u>

	Unaudited				
	Nine months ended 30 September 2013				
	VAS	Online	eCommerce	Others	Total
RMB'Million	advertising	transactions	RMB'Million	RMB'Million	
Segment revenues	<u>33,053</u>	<u>3,537</u>	<u>6,472</u>	<u>405</u>	<u>43,467</u>
Gross profit	<u>21,555</u>	<u>1,771</u>	<u>397</u>	<u>164</u>	<u>23,887</u>
Depreciation	1,205	100	11	14	1,330
Amortisation	186	191	–	–	377
Share of profits/(losses) of associates and joint ventures	<u>130</u>	<u>–</u>	<u>(35)</u>	<u>94</u>	<u>189</u>

3 Interests in associates

	Unaudited	Audited
	30 September	31 December
	2014	2013
	RMB'Million	RMB'Million
Investments in associates (a)		
- Listed shares	29,510	1,426
- Unlisted shares	<u>17,421</u>	<u>9,441</u>
	46,931	10,867
Investments in redeemable preference shares of associates (b)	2,883	1,119
Loans to associates	<u>3</u>	<u>184</u>
	<u>49,817</u>	<u>12,170</u>

Note:

(a) Investments in associates

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	10,867	6,310
Additions ((i), (ii), (iii), (iv), (v), (vi) and (vii))	35,923	2,340
Deemed disposal gains	1,226	-
Share of (losses)/profits of associates	(71)	227
Share of other comprehensive income of associates	43	-
Dividends from associates	(148)	(34)
Disposal of associates	(261)	(133)
Impairment provision (viii)	(468)	-
Currency translation differences	<u>(180)</u>	<u>-</u>
At end of period	<u>46,931</u>	<u>8,710</u>

- (i) In March 2014, the Group entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com (“JD.com Pre-IPO Subscription”), an online direct sales company operating in the PRC, to purchase 351,678,637 ordinary shares of JD.com, representing, approximately 15.0% of the outstanding JD.com ordinary shares immediately after the completion of the JD.com Pre-IPO Subscription, at an aggregate consideration of cash, certain eCommerce related businesses and assets of the Group, and 9.9% equity interests of Yixun, which is a non-wholly owned subsidiary of the Group, with a call option granted to acquire the remaining equity interests held by the Group in Yixun at the higher of RMB800 million and the then fair value of the interests.

In addition, the Group also entered into a strategic co-operation agreement (“SCA”) with JD.com that the Group would offer level 1 access points at Weixin and Mobile QQ, and other key platform support to JD.com. The fair market value of the support to be provided to JD.com under the SCA is accounted for as deferred revenue of the Group and the amount is recognised over the duration of the SCA.

On 22 May 2014, the American depository shares of JD.com began to be listed on NASDAQ (the “JD.com IPO”), and the Group further acquired 5.0% of JD.com’s equity capital on a fully-diluted basis at a cash consideration of approximately USD1,325 million (equivalent to RMB8,161 million). As of 30 September 2014, the Group’s equity interests of JD.com were approximately 16.04% on a fully-diluted basis.

The total consideration of the investment in JD.com is approximately RMB16,959 million.

- (ii) In March 2014, the Group entered into an agreement with E-House to acquire from E-House approximately 15.0% of equity interests of Leju, on a fully-diluted basis, at a cash consideration of USD180 million (equivalent to approximately RMB1,102 million). On 22 April 2014, the shares of Leju began to be listed on the New York Stock Exchange and the Group subscribed additional shares of Leju at a cash consideration of USD20 million (equivalent to approximately RMB125 million). As a result, the Group’s equity interests of Leju were approximately 15.0% on a fully-diluted basis.

The total consideration of the investment in Leju is approximately RMB1,227 million.

- (iii) In April 2014, the Group entered into an agreement to acquire approximately 11.28% of the total issued share capital of NavInfo at a total consideration of RMB1,173 million. NavInfo provides digital maps, telematics and dynamic traffic information services as well as geography-related business intelligence solutions in the PRC.

- (iv) In June 2014, the Group entered into an agreement with 58.com to acquire 19.9% of its total equity capital on a fully-diluted basis, at a consideration of approximately USD736 million (equivalent to approximately RMB4,541 million). In addition, the Group acquired additional 4.1% of the total equity capital of 58.com on a fully-diluted basis at a total consideration of USD140 million (equivalent to approximately RMB863 million) in September 2014. As a result, the Group's equity interests of 58.com were approximately 24.0% on a fully-diluted basis. 58.com operates a classified listings platform in the PRC.

The total consideration of the investment in 58.com is approximately RMB5,404 million.

- (v) In January 2014, the Group entered into an agreement to subscribe approximately 680 million newly issued ordinary shares of CSC at a cash consideration of HKD1,497 million (equivalent to approximately RMB1,177 million). In addition, the Group had a call option to subscribe further approximately 245 million new shares of CSC within 2 years after its initial investment made in CSC. During the three months ended 30 September 2014, the Group exercised the call option at a total consideration of HKD823 million (equivalent to approximately RMB654 million). As a result, the Group held approximately 925 million shares in aggregate in CSC, which represents approximately 11.55% of issued share capital of CSC. CSC is a developer and operator of large scale integrated logistics and trade centers in the PRC.

The total consideration of the investment in CSC is approximately RMB1,831 million.

- (vi) In March 2014, the Group entered into a series of agreements, and upon the completion in August 2014, the Group started to own, in aggregate, approximately 28.0% of the total outstanding shares of CJ Games. CJ Games is an online and mobile games developer and publisher in Korea.

The total consideration of the investment in CJ Games is KRW533,000 million (equivalent to approximately RMB3,231 million).

- (vii) In addition to the above, the Group also acquired some other associates, or made additional investments into existing associates, for an aggregate consideration of RMB6,098 million during the nine months ended 30 September 2014. These investee companies are principally engaged in O2O daily life information business, mobile games business and other Internet-related businesses.

- (viii) During the nine months ended 30 September 2014, the Group made an impairment provision of RMB468 million (for the nine months ended 30 September 2013: Nil) against the carrying amount of its investments in certain associates, based on the assessment results performed on the carrying amounts of these investments with reference to their business performance and their underlying recoverable amount.

(b) **Investments in redeemable preference shares of associates**

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

In August 2014, the Group subscribed for minority interest in a company providing Internet platform services, at a total consideration of USD145 million (equivalent to approximately RMB893 million).

During the nine months ended 30 September 2014, the Group also made an impairment provision of RMB321 million (for the nine months ended 30 September 2013: Nil) against investments in redeemable preference shares of certain associates with reference to their business performance and the assessed recoverable amount of these investments.

4 Available-for-sale financial assets

	Unaudited	Audited
	30 September	31 December
	2014	2013
	RMB'Million	RMB'Million
Available-for-sale financial assets		
- Listed securities (a)	4,641	6,245
- Unlisted securities	<u>9,094</u>	<u>6,270</u>
	<u><u>13,735</u></u>	<u><u>12,515</u></u>

Movement in the unlisted securities is analysed as follows:

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	6,270	1,550
Additions (b)	1,931	827
Gains from changes in fair value	1,372	—
Transfer to interests in associates	(71)	—
Impairment provision (c)	(369)	—
Currency translation differences	<u>(39)</u>	<u>—</u>
At end of period, all non-current	<u><u>9,094</u></u>	<u><u>2,377</u></u>

Note:

- (a) The losses from changes in fair value recognised for the listed securities during the nine months ended 30 September 2014 were RMB1,661 million (for the nine months ended 30 September 2013: gains from changes in fair value were RMB2,296 million).
- (b) The Group acquired certain other available-for-sale financial assets or made additional investments in certain existing available-for-sale financial assets at an aggregate consideration of RMB1,931 million during the nine months ended 30 September 2014. They are principally engaged in O2O business and other Internet-related businesses.
- (c) During the nine months ended 30 September 2014, the Group made an impairment provision of RMB369 million (for the nine months ended 30 September 2013: Nil) against the carrying amount of its investments in certain unlisted available-for-sale financial assets, with reference to their business performance and their assessed recoverable amount.

5 Accounts receivable

Accounts receivable and their ageing analysis are as follows:

	Unaudited 30 September 2014 RMB'Million	Audited 31 December 2013 RMB'Million
0 - 30 days	2,391	1,537
31 - 60 days	598	827
61 - 90 days	634	369
Over 90 days	<u>670</u>	<u>222</u>
	<u>4,293</u>	<u>2,955</u>

Receivable balances as at 30 September 2014 mainly represented amounts due from telecommunications operators, including China Mobile, China Unicom, China Telecom and their respective branches, subsidiaries and affiliates, as well as brand display advertising customers mainly located in the PRC.

While there are no contractual requirements for the telecommunications operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

6 Share option and share award schemes

(a) Share option schemes

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

(i) Pre-IPO Option Scheme

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

(ii) Post-IPO Option Scheme I

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

(iii) Post-IPO Option Scheme II

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

(iv) Post-IPO Option Scheme III

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

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

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

	Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2014 (1)	HKD11.25	819,266	HKD75.69	12,648,005	HKD158.50	1,000,000	14,467,271
Granted before the Share Subdivision (1)	–	–	HKD572.60	2,307,500	–	–	2,307,500
Granted after the Share Subdivision (2)	–	–	HKD123.95	2,133,050	–	–	2,133,050
Exercised before the Share Subdivision (1)	HKD11.25	(819,224)	HKD46.54	(2,896,392)	–	–	(3,715,616)
Exercised after the Share Subdivision (2)	–	–	HKD8.99	(18,089,583)	–	–	(18,089,583)
Lapsed before the Share Subdivision (1)	HKD14.53	(42)	HKD116.38	(600,000)	–	–	(600,042)
Lapsed after the Share Subdivision (2)	–	–	HKD6.35	(100)	–	–	(100)
Effect of Share Subdivision (3)	–	–	–	<u>45,836,452</u>	–	<u>4,000,000</u>	<u>49,836,452</u>
At 30 September 2014 (2)	–	–	HKD52.63	<u>41,338,932</u>	HKD31.70	<u>5,000,000</u>	<u>46,338,932</u>
Exercisable as at 30 September 2014 (2)	–	–	HKD17.02	<u>16,898,927</u>	–	–	<u>16,898,927</u>
At 1 January 2013 (1)	HKD11.13	4,596,489	HKD65.50	20,633,097	HKD158.50	1,000,000	26,229,586
Exercised (1)	HKD11.46	(2,122,284)	HKD42.77	(6,263,341)	–	–	(8,385,625)
Lapsed (1)	HKD5.50	(75)	HKD119.71	(325,588)	–	–	(325,663)
At 30 September 2013 (1)	HKD10.85	<u>2,474,130</u>	HKD74.38	<u>14,044,168</u>	HKD158.50	<u>1,000,000</u>	<u>17,518,298</u>
Exercisable as at 30 September 2013 (1)	HKD10.85	<u>2,474,130</u>	HKD52.97	<u>8,808,348</u>	–	–	<u>11,282,478</u>

Note:

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

During the nine months ended 30 September 2014, 1,000,000 share options (before the effect of the Share Subdivision) were granted to an executive director of the Company (for the nine months ended 30 September 2013: no share option was granted to any director of the Company).

(b) **Share award schemes**

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

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

Movements in the number of shares held for the Share Award Schemes and awarded shares for the nine months ended 30 September 2014 and 2013 are as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2014 (i)	1,435,659	18,065,996	19,501,655
Purchased and withheld before the Share Subdivision (i)	31,583	—	31,583
Purchased and withheld after the Share Subdivision (ii)	5,016,225	—	5,016,225
Allotted after the Share Subdivision (ii)	19,520,635	—	19,520,635
Granted before the Share Subdivision (i)	(1,183,445)	1,183,445	—
Granted after the Share Subdivision (ii)	(17,055,300)	17,055,300	—
Lapsed before the Share Subdivision (i)	461,220	(461,220)	—
Lapsed after the Share Subdivision (ii)	2,186,124	(2,186,124)	—
Vested and transferred before the Share Subdivision (i)	—	(226,797)	(226,797)
Vested and transferred after the Share Subdivision (ii)	—	(25,115,469)	(25,115,469)
Effect of Share Subdivision (iii)	<u>2,980,068</u>	<u>74,245,696</u>	<u>77,225,764</u>
At 30 September 2014 (ii)	<u>13,392,769</u>	<u>82,560,827</u>	<u>95,953,596</u>
Vested but not transferred as at 30 September 2014 (ii)			<u>78,495</u>

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2013 (i)	405,230	18,944,442	19,349,672
Purchased and withheld (i)	951,506	–	951,506
Allotted (i)	4,058,740	–	4,058,740
Granted (i)	(5,090,305)	5,090,305	–
Lapsed (i)	878,339	(878,339)	–
Vested and transferred (i)	<u>–</u>	<u>(4,678,316)</u>	<u>(4,678,316)</u>
At 30 September 2013 (i)	<u>1,203,510</u>	<u>18,478,092</u>	<u>19,681,602</u>
Vested but not transferred as at 30 September 2013 (i)			<u>–</u>

Note:

- (i) The numbers of shares were presented as before the effect of the Share Subdivision.
- (ii) The numbers of shares were presented as after the effect of the Share Subdivision.
- (iii) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

During the nine months ended 30 September 2014, 25,000 awarded shares (before the effect of the Share Subdivision) were granted to three independent non-executive directors of the Company (for the nine months ended 30 September 2013: no awarded share was granted to any director of the Company).

7 Borrowings

	Unaudited	Audited
	30 September	31 December
	2014	2013
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
- Unsecured (Note)	<u>5,537</u>	<u>3,323</u>
Included in current liabilities:		
RMB bank borrowings		
- Unsecured	125	150
USD bank borrowings		
- Unsecured	1,231	2,134
Current portion of long-term USD bank borrowings		
- Unsecured (Note)	<u>1,354</u>	<u>305</u>
	<u>2,710</u>	<u>2,589</u>
	<u>8,247</u>	<u>5,912</u>

Movement in the borrowings is analysed as follows:

	Unaudited	
	Nine months ended	
	30 September	
	2014	2013
	RMB'Million	RMB'Million
At beginning of period	5,912	3,183
Additions of bank borrowings	6,200	5,086
Repayments of bank borrowings	(3,942)	(2,187)
Currency translation differences	<u>77</u>	<u>(75)</u>
At end of period	<u>8,247</u>	<u>6,007</u>

Note:

The aggregate principal amount of long-term USD bank borrowings was USD1,120 million. Applicable interest rates are at LIBOR plus 1.37% to 1.97% per annum.

8 Notes payable

On 12 December 2011, the Company issued long-term notes (the “2011 Notes”) with an aggregate principal amount of USD600 million for general corporate purposes. The 2011 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2011 Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the “2012 Notes”) with an aggregate principal amount of USD600 million for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2012 Notes are listed on the Stock Exchange and will mature on 5 March 2018.

On 10 September 2013, the Company issued another long-term notes (the “2013 Notes”) with an aggregate principal amount of USD300 million for general corporate purposes. The 2013 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2013 Notes are non-publicly issued and will mature on 10 September 2015.

On 10 April 2014, the Company established a Global Medium Term Note Programme (the “Programme”) under which it may issue medium term notes, in series of aggregate principal amount of up to USD5,000 million (or its equivalent in other currencies) to professional investors. These notes will be issued in series with different issue dates and terms and may be denominated in any currency subject to compliance with all relevant laws, regulations and directives. The Programme is listed on the Stock Exchange. The Company utilises the Programme as a platform to enhance its flexibility and efficiency for future funding or capital management from a medium to long term prospective.

On 29 April 2014, the Company issued two tranches of senior notes under the Programme with an aggregate principal amount of USD2,500 million, comprising USD500 million senior notes due 2017 (the “2014 Notes I”) and USD2,000 million senior notes due 2019 (the “2014 Notes II”). The 2014 Notes I bear an interest at 2.000% per annum, payable semi-annually in arrears on 2 November and 2 May of each year, beginning on 2 November 2014. The 2014 Notes II bear an interest at 3.375% per annum, payable semi-annually in arrears on 2 November and 2 May of each year, beginning on 2 November 2014. The net proceeds from the issuance of the 2014 Notes I and the 2014 Notes II amounted to approximately USD2,488 million (equivalent to approximately RMB15,306 million), after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. Both of the 2014 Notes I and 2014 Notes II are listed on the Stock Exchange.

On 16 May 2014, the Company issued the third tranche of senior notes under the Programme (the “2014 Notes III”) with an aggregate principal amount of HKD2,000 million due 2020. The 2014 Notes III bear an interest at 3.200% per annum, payable quarterly in arrears on 10 July, 10 October, 10 January and 10 April of each year, beginning on 10 July 2014. The net proceeds from the issuance of the 2014 Notes III amounted to approximately HKD1,998 million (equivalent to approximately RMB1,588 million), after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. The 2014 Notes III are listed on the Stock Exchange.

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

As at 30 September 2014, the carrying amount of these notes was RMB26,050 million (31 December 2013: RMB9,141 million).

9 Accounts payable

Accounts payable and their ageing analysis are as follows:

	Unaudited 30 September 2014 RMB'Million	Audited 31 December 2013 RMB'Million
0 - 30 days	3,869	4,063
31 - 60 days	1,144	1,147
61 - 90 days	879	366
Over 90 days	<u>1,549</u>	<u>1,104</u>
	<u><u>7,441</u></u>	<u><u>6,680</u></u>

10 Other gains, net

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Gains on disposals/deemed disposals of investees and businesses (Note)	159	—	3,958	25
Subsidies and tax rebates	11	113	63	169
Dividend income	7	6	76	451
Impairment provision for investees	(122)	—	(1,267)	—
Donation to Tencent Charity Fund	—	—	(250)	(120)
Others	<u>63</u>	<u>(53)</u>	<u>(164)</u>	<u>(26)</u>
	<u><u>118</u></u>	<u><u>66</u></u>	<u><u>2,416</u></u>	<u><u>499</u></u>

Note:

The disposal gain recognised in “Other gains, net” for the disposal of certain eCommerce related business (“Transferred Business”) of the Group, which forms as part of the investment consideration for the investment made in JD.com (Note 3(a)(i)) amounting to RMB1,942 million, being the difference between the consideration for the Transferred Business and the net asset value of the transferred equity interests and assets at completion of the disposal of the Transferred Business.

11 Expenses by nature

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Employee benefits expenses (a)	4,215	2,714	11,235	7,716
Content costs and agency fees (b)	3,002	2,336	7,849	6,389
Cost of merchandise sold	336	2,154	4,083	5,890
Promotion and advertising expenses	1,431	988	4,199	2,435
Mobile and telecommunications charges and bandwidth and server custody fees	1,370	1,046	3,881	3,066
Depreciation of fixed assets (a)	759	644	2,224	1,804
Amortisation of intangible assets (b)	469	200	1,253	571
Operating lease rentals in respect of office buildings	256	227	769	642
Travelling and entertainment expenses	141	134	350	299

Note:

- (a) Research and development expenses for the three and nine months ended 30 September 2014 were RMB2,027 million and RMB5,420 million (for the three and nine months ended 30 September 2013: RMB1,353 million and RMB3,794 million, respectively), which included employee benefit expenses of RMB1,645 million and depreciation of fixed assets of RMB163 million for the three months ended 30 September 2014 (for the three months ended 30 September 2013: RMB1,066 million and RMB143 million, respectively) and employee benefit expenses of RMB4,337 million and depreciation of fixed assets of RMB475 million for the nine months ended 30 September 2014 (for the nine months ended 30 September 2013: RMB3,055 million and RMB401 million, respectively). No research and development expenses had been capitalised for the three and nine months ended 30 September 2014 and 2013.

- (b) Amortisation expense of licenses and licensed online contents were included in amortisation of intangible assets.

12 Income Tax expenses

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

(a) Cayman Islands and British Virgin Islands Corporate Income Tax

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three and nine months ended 30 September 2014 and 2013.

(b) Hong Kong Profits Tax

Hong Kong profits tax provision has been provided at the rate of 16.5% on the estimated assessable profits for the three and nine months ended 30 September 2014 and 2013.

(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 2014 and 2013, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Pursuant to the PRC Corporate Income Tax Law promulgated by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate is 25% for domestic and foreign enterprise in 2014.

In 2011, certain subsidiaries of the Company in the PRC were approved as High and New Technology Enterprise, accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law. As at 30 September 2014, these subsidiaries were in the process of renewing such entitlement by applying to the relevant government authorities. The directors of the Company performed an assessment on each subsidiaries on the likelihood of obtaining the renewal and applied the respective applicable CIT rates (15% or 25%), to make their CIT provision for the three and nine months ended 30 September 2014. Moreover, one of these subsidiaries was further approved as a national key software enterprise, and accordingly, its CIT rates for 2013 and 2014 were further reduced to the preferential rate of 10%.

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

(d) **United States Corporate Income Tax**

United States CIT provision was provided for the three and nine months ended 30 September 2014 and 2013 for the entities within the Group which were incorporated in the US with estimated assessable profits, at applicable tax rate of 36%.

(e) **Corporate Income Tax in other countries**

CIT provision has been provided for the three and nine months ended 30 September 2014 and 2013 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35%.

(f) **PRC withholding tax**

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

The income tax expense of the Group for the three and nine months ended 30 September 2014 and 2013 are analysed as follows:

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Current tax	1,096	828	2,749	2,597
Deferred income tax	<u>287</u>	<u>127</u>	<u>1,484</u>	<u>313</u>
	<u>1,383</u>	<u>955</u>	<u>4,233</u>	<u>2,910</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the three and nine months ended 30 September 2014 and 2013, being the tax rate of the major subsidiaries of the Group before preferential tax treatments. The difference is analysed as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2014	2013	2014	2013
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Profit before income tax	7,059	4,832	22,167	14,542
Share of losses/(profits) of associates and joint ventures	<u>139</u>	<u>(39)</u>	<u>72</u>	<u>(189)</u>
	<u>7,198</u>	<u>4,793</u>	<u>22,239</u>	<u>14,353</u>
Tax calculated at a tax rate of 25%	1,800	1,198	5,560	3,588
Effects of different tax rates applicable to different subsidiaries of the Group	(838)	(405)	(3,347)	(1,254)
Effects of tax holiday on assessable profits of subsidiaries	(139)	(93)	(324)	(136)
Income not subject to tax	—	(43)	—	(122)
Expenses not deductible for tax purposes	261	84	764	239
Withholding tax on earnings expected to be remitted by PRC subsidiaries	230	135	1,030	347
Unrecognised deferred income tax assets	69	79	547	229
Others	<u>—</u>	<u>—</u>	<u>3</u>	<u>19</u>
Income tax expense	<u>1,383</u>	<u>955</u>	<u>4,233</u>	<u>2,910</u>

13 EPS

(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	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (RMB' Million)	<u>5,657</u>	<u>3,867</u>	<u>17,950</u>	<u>11,591</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	<u>9,243</u>	<u>9,186</u>	<u>9,216</u>	<u>9,173</u>
Basic EPS (Note) (RMB per share)	<u><u>0.612</u></u>	<u><u>0.421</u></u>	<u><u>1.948</u></u>	<u><u>1.264</u></u>

Note:

Weighted average number of ordinary shares in issue and basic EPS were stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.

(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), taking into account the effect of the Share Subdivision. No adjustment is made to earnings (numerator).

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three and nine months ended 30 September 2014 and 2013, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

	Unaudited Three months ended 30 September 2014		Unaudited Nine months ended 30 September 2014	
	2014	2013	2014	2013
Profit attributable to equity holders of the Company (RMB' Million)	<u>5,657</u>	<u>3,867</u>	<u>17,950</u>	<u>11,591</u>
Weighted average number of ordinary shares in issue (Note) (million shares)	9,243	9,186	9,216	9,173
Adjustments for share options (Note) (million shares)	29	76	53	87
Adjustments for awarded shares (Note) (million shares)	<u>80</u>	<u>76</u>	<u>92</u>	<u>76</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (Note) (million shares)	<u>9,352</u>	<u>9,338</u>	<u>9,361</u>	<u>9,336</u>
Diluted EPS(Note) (RMB per share)	<u>0.605</u>	<u>0.414</u>	<u>1.918</u>	<u>1.242</u>

Note:

Weighted average number of ordinary shares in issue, adjustments for share options, adjustments for awarded shares, weighted average number of ordinary shares for the calculation of diluted EPS and diluted EPS were stated after taking into account the effect of the Share Subdivision. Comparative figures have been restated on the assumption that the Share Subdivision had been in place in prior periods.

14 Dividends

A final dividend in respect of the year ended 31 December 2013 of HKD1.20 per share before the effect of the Share Subdivision, or HKD0.24 per share after the effect of the Share Subdivision (2012: HKD1.00 per share before the effect of the Share Subdivision) was proposed pursuant to a resolution passed by the Board on 19 March 2014 and approved by the shareholders at the 2014 AGM. Such dividend, which excluded the dividends related to the shares held for the Share Award Schemes, amounted to RMB1,761 million (final dividend for 2012: RMB1,468 million), was paid/payable as at 30 September 2014.

The Board did not declare any interim dividend for the nine months ended 30 September 2014 and 2013.

15 Subsequent event

Merger of Kakao Corporation with Daum

In May 2014, Kakao Corporation, an associate of the Group, entered into a merger agreement to merge with Daum, where Daum is the surviving corporation. Daum is listed on the Korea Securities Dealers Automated Quotation (KOSDAQ) market of the Korea Exchange and runs a portal website in Korea named www.daum.net. The merger transaction was completed in October 2014. As a result, the Group's interest in the merged entity is diluted and the management is in the process of assessing the financial impact.

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