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Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰 訊 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

UPDATE OF GLOBAL MEDIUM TERM NOTE PROGRAMME

PROPOSED ISSUE OF NOTES UNDER US$10,000,000,000 GLOBAL MEDIUM TERM NOTE PROGRAMME

AND

EXTRACT OF FINANCIAL INFORMATION

References are made to the announcements of the Company dated 10 April 2014 and 24 April 2015 in relation to its establishment and increase of limit of the Programme.

The Board is pleased to announce that on 9 January 2018, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information. The Company also proposes to conduct an international offering of the Notes under the Programme to certain professional investors. The Notes will be issued in series with different issue dates and terms and may be denominated in any currency subject to compliance with all relevant laws, regulations and directives. The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interest. None of the Notes will be offered to the public in Hong Kong, the United States, or any other jurisdictions, nor will the Notes be placed to any connected person(s) of the Company.

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

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

Deutsche Bank, Bank of America Merrill Lynch and HSBC are the joint global coordinators in respect of the Proposed Notes Issue. The Company intends to use the net proceeds for general corporate purposes.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interest. Investors and Shareholders are advised to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company as and when appropriate.

UPDATE OF THE PROGRAMME

Introduction

References are made to the announcements of the Company dated 10 April 2014 and 24 April 2015 in relation to its establishment and increase of limit of the Programme.

The Board is pleased to announce that on 9 January 2018, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information.

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

As at the date of this announcement, the Company has outstanding under the Programme approximately US$4.64 billion of the Notes.

Listing

An application has been made by the Company to the Stock Exchange for the listing of the Programme by way of debt issues to certain professional investors only. In relation to any issue of the Notes, the Company has the option to agree with the relevant dealer(s) to list the Notes on the Stock Exchange or any other recognised stock exchanges.

Proposed use of net proceeds

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

PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of the Notes under the Programme to certain professional investors. In connection with the Proposed Notes Issue, the Company will provide certain professional investors with recent corporate and financial information. For the purposes of the transparent and timely dissemination of information to Shareholders and the broader investment community, an extract of the relevant information which relates to the management's discussion and analysis of financial condition and results of the operations of the Group is attached hereto.

The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interest. Deutsche Bank, Bank of America Merrill Lynch and HSBC are the joint global coordinators in respect of the Proposed Notes Issue. The Company intends to use the net proceeds for general corporate purposes.

The Notes to be issued by the Company have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States. The Notes will only be offered (i) in the United States to qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or in transactions not subject to the registration requirements of the U.S. Securities Act and (ii) in offshore transactions to Non-U.S. Persons in compliance with Regulation S. None of the Notes will be offered to the public in Hong Kong, the United States, or any other jurisdictions, nor will the Notes be placed to any connected person(s) of the Company.

Listing

The Company intends to seek a listing of the Notes on the Stock Exchange. Admission of the Notes to the official list of the Stock Exchange and quotation of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Company or the Notes.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interest. Investors and Shareholders are advised to exercise caution when dealing in the securities of the Company.

Further announcement in respect of the Proposed Notes Issue will be made by the Company as and when appropriate.

DEFINITION

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

Term	Definition
"Board"	the board of directors of the Company
"Bank of America Merrill Lynch"	Merrill Lynch (Asia Pacific) Limited
"Company"	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the Shares of which are listed on the SEHK
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Non-U.S. Persons"	persons who are not U.S. persons as defined under Regulation S
"Notes"	the medium term notes that may be issued from time to time by the Company to professional investors only under the Programme
"Pricing Supplement"	the document which sets out the terms specific to each series of the Notes to be issued under the Programme
"Programme"	the global medium term note programme established by the Company by way of a dealer agreement dated 10 April 2014 (as amended and restated by an amended and restated dealer agreement dated 24 April 2015) and as updated and modified from time to time
"Proposed Notes Issue"	the proposed issue of the Notes
"Regulation S"	Regulation S under the U.S. Securities Act
"Rule 144A"	Rule 144A under the U.S. Securities Act
"Share(s)"	the ordinary share(s) with par value of HK$0.00002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited

"U.S." or "United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"US$"	United States dollars, the lawful currency of the United States

By Order of the Board
Ma Huateng
Chairman

9 January 2018

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

Executive Directors:
Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:
Jacobus Petrus (Koos) Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:
Li Dong Sheng, Iain Ferguson Bruce, Ian Charles Stone and Yang Siu Shun.

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

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 at and for the years ended 31 December 2014, 2015 and 2016, the three months ended 31 March 2016 and 2017, the three months and six months ended 30 June 2016 and 2017 and the three months and nine months ended 30 September 2016 and 2017, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited and unaudited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.

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

OVERVIEW

We are a leading integrated Internet services company in the PRC, operating a broad range of Internet services including social communication services, online games, digital content, online advertising and other services. Our social communities for both mobile and PC are the largest in the country in terms of daily user reach in September 2017, with *Weixin* (and, for the overseas market, *WeChat*) and *Mobile QQ* accounting for 88.78% and 40.47% of MAU respectively for mobile social networking services, in September 2017, according to iResearch. *Weixin* and *WeChat* have a combined MAU of 980.0 million as at 30 September 2017. *QQ* has a total MAU of 843.2 million and smart devices MAU of 652.9 million. Our social community users are the most engaged in the PRC, with *Weixin* (and, for the overseas market, *WeChat*) users accounting for 71.43% of monthly time spent on mobile social networking services in September 2017, according to iResearch. For online games, we maintain our leadership in the mobile and PC games market in China, as measured by users and revenues. We have expanded our game strength into different genres, such as role playing and strategy games. We have also established leading digital media platforms across a range of content, including video, literature, news, music and others. Leveraging our traffic and highly engaged users, we have also built an attractive proposition to key accounts and long-tail advertisers who are contributing to our advertising revenue.

We aim to become the hub for fulfilling people's online lifestyle needs, through our expansive product offerings as well as our strong network of partnerships, encompassing communication, social networking, entertainment, information and O2O services. We have built numerous highly popular platforms and services following the launch of our product *QQ* in February 1999, such as *Weixin/WeChat*, *Qzone*, *Tencent News*, *Tencent Video* and *QQ Music* etc. Our social products *Weixin/WeChat* and *QQ* link our users to a rich digital content catalogue including games, video, literature, news, music and others. We further broaden the types and the number of services offered to our users by allowing third-parties to access and offer services and products on our open platforms. Through strategic partnerships with category leaders, we have further expanded our ecosystem and deepened engagement with users on our platforms. As of June 2017, according to Analysys, including our affiliates *JD.com* and *Sogou*, we have the largest platforms across all major Internet categories in the PRC, with eleven out of the top twenty applications ranked by monthly active users.

Our payment activity is expanding from social payment to commercial transactions, and from online to offline. Social payment is a key part of our payment related services, which includes red packets, peer-to-peer transfers and sharing bills, amongst others. Our payment related services provide fast and seamless experience for a widening range of offline consumption scenarios such as taxi booking, convenience stores, restaurants, and supermarkets. Our fast growing commercial payment transaction volume is diversifying from large online merchants to a broad range of offline merchants. Our monthly offline commercial payment volume in September 2017 increased by 280% year-on-year. Payments also enable merchants to effectively measure advertising effectiveness and facilitate financial institutions distributing internet finance products in a more targeted manner. Our robust payment infrastructure ensured continuous improvements in payment security, service reliability and transaction speed.

At the core of our business, we focus on executing our "Connection" strategy by fostering a healthy mobile ecosystem with enriched online and offline user experiences, and through strengthening our relationship with strategic partners, bringing our own and our partners' products and services to PRC consumers by various platforms. Our business focuses on providing value for users, application developers, content providers advertisers, merchants and enterprises. Currently, we have three lines of business:

- ***Value-added Services*** — Our VAS business mainly consists of online games and social networks.

    - ***Online games***— We are the largest online games company globally by revenue, with 16% global market share amongst the top 25 publicly listed game companies in 2016, according to Newzoo. We are also the largest online games company in the PRC with a market share of 47.7%, and a market share of 65.9% in PC games and 38.1% in smart phone games as measured by revenue in the second quarter ended 30 June 2017, according to iResearch. For PC client games, we maintain our leadership as the largest game operator and publishing platform in the PRC, operating all three top PC client game titles globally by revenue generated in the first half of 2017, namely *League of Legends*, *Dungeon & Fighter* and *CrossFire*, according to SuperData Research. We have successfully extended our PC games leadership into smart phone games. Amongst our leading game titles is *Honour of Kings*, an in-house smart phone game title that is the top grossing smart phone game title globally in the first half of 2017, according to SuperData Research. According to Newzoo, based on gross revenue in September 2017, eight of our smart phone game titles were ranked amongst the top twenty grossing online games apps on iOS in the PRC.

    - ***Social networks***— We are a leading provider of social networks in the PRC, with clear leadership in social communication platforms, including *Weixin/WeChat*, QQ and *Qzone*. We also provide our user community a diverse and comprehensive range of digital content services, including online video, music, literature, news and others.

- ***Online Advertising*** — Our online advertising services primarily comprise media advertising and social and others advertising. Media advertising relates to advertising on our video, news and music properties. Significant traffic on our media properties provides us opportunities to drive monetisation through advertising. Social and others advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Official Accounts*, *QQ, Qzone* and our utilities properties, such as app store and browser as well as ad networks. Through leveraging our comprehensive ecosystem, scale and data insights, we are able to drive more relevant and targeted advertising to generate higher efficiency and returns for advertisers.

- ***Others*** — Our other services include payment related services, cloud services and other services. We provide infrastructure support and mobile payment solutions to merchants, while *Weixin Pay* and *QQ Wallet* are consumer-facing mobile payment solutions with expanding uses, including social, O2O services and online finance. As at December 2016, our payments platform has over 600 million MAU and over 600 million average daily transactions. Through continued investments in cloud services, we made several internally developed technologies available to our corporate clients and partners. As at September 2017, *Tencent Cloud* has been expanding its global infrastructure coverage and now offers services in 36 availability zones around the world. Through providing differentiated and tailor-made solutions, *Tencent Cloud* has grown its customer base and is a leader in online games and live video broadcast segments, and is gaining market share in verticals such as internet finance and municipal services. Our cloud services revenue more than tripled year-on-year in 2016.

We strive to strengthen our "Connection" strategy by making our social platforms more interactive and engaging users to share and communicate, and by connecting our social platforms to a broader range of online and offline services. We have established a comprehensive Internet ecosystem that provides benefits to users, content providers, merchants, enterprises, 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 and different products and services. We will continue to leverage our massive user base, our diversified online platforms and well recognised brand to capitalise on the continued growth in Internet and mobile usage in the PRC. We have been expanding our ecosystem around our core social communication platforms through the following initiatives:

- adding more services within our social platforms to bring more convenience to our users, and to relate business opportunities for our ecosystem partners;

- expanding the popularity of our major smart phone games while adding new genre-driven PC games;

- expanding our advertising market share by synchronising our capabilities in media and social advertising and growing our number of small and regional advertisers with deeper targeting algorithms and more convenient self-service tools;

- growing our digital content subscriber bases;

- boosting usage frequency of our payment related services by covering more online and offline consumption scenarios; and

- developing our capabilities in emerging technology areas such as machine learning and cloud services.

We adopt a prudent approach in assessing investment and M&A opportunities. Driven by our "Connection" strategy, we have invested in a number of category leaders in the PRC, including *JD.com*, the largest online direct sales company in the PRC, *Meituan-Dianping*, the largest service-focused eCommerce platform in the PRC, *Didi Chuxing*, the largest taxi-booking company in the PRC and *Yixin*, the leading online automobile retail transaction platform in the PRC. We have also made strategic investments, directly or indirectly, in leading companies globally, including *Supercell Oy*, the leading global mobile game developer, *Flipkart Internet Private Limited*, the leading eCommerce platform in India, and *Tesla Inc.*, the global electric car and energy solutions leader.

We adopt an active portfolio management approach. This includes in-market consolidation to improve competitive position of our assets and investments. For instance, in March 2014, we sold our eCommerce businesses, including online marketplaces *Paipai* and *QQ Wanggou*, to *JD.com* and entered into a strategic partnership with *JD.com*. We also periodically evaluate external funding options for our subsidiaries. For instance, in November 2017, our subsidiary *China Literature*, the leading online literature platform in the PRC as measured by the scale and quality of our writers, readers and literary content offerings, according to Frost & Sullivan, completed its initial public offering on the SEHK, raising HK$9.6 billion in gross proceeds from its share offering. In addition, some of our investments, such as *ZhongAn Online*, *Sea*, *Sogou* and *Yixin*, have grown and managed to diversify their funding sources. In September 2017, *ZhongAn Online*, an online-only insurance technology company in the PRC, completed its initial public offering on the SEHK, raising approximately HK$13.7 billion in gross proceeds from its share offering. In October 2017, *Sea*, one of the leading internet companies in Greater Southeast Asia, completed its initial public offering on the New York Stock Exchange, raising approximately US$884.4 million in gross proceeds from its share offering. In November 2017, *Sogou*, a leading internet search company in the PRC, completed its initial public offering on the New York Stock Exchange, raising approximately US$585.0 million in gross proceeds from its share offering. In November 2017, *Yixin*, the leading online automobile retail transaction platform in the PRC, completed its initial public offering on the SEHK, raising approximately HK$6.8 billion in gross proceeds from its share offering.

We commenced our business in November 1998 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 2016, our total revenue was RMB151,938 million and our profit for the year was RMB41,447 million, an increase of 48% and 42%, respectively, over the year ended 31 December 2015. For the nine months ended 30 September 2017, our total revenues was RMB171,368 million (US$25,757 million) and our profit for the period was RMB50,849 million (US$7,643 million), an increase of 59% and 64%, respectively, over the nine months ended 30 September 2016. As at 30 September 2017, our cash and cash equivalents and term deposits and others amounted to RMB150,797 million (US$22,665 million).

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 the engagement and monetisation of our vast user base

The growth of our business and revenues depends on our ability to deepen user engagement and further increase the monetisation of our vast user base. We have seen a significant growth in our *Weixin/WeChat* user base and a migration to smart devices from PC for our *QQ* users. As at 30 September 2017, combined MAU of *Weixin* and *WeChat* reached 980.0 million, an increase of 15.8%, from 846.1 million as at 30 September 2016. Combined MAU of *Weixin* and *WeChat* reached 889.3 million as at 31 December 2016, an increase of 27.6% from 697.0 million as at 31 December 2015. In 2016, over half of *Weixin* users spent at least 1.5 hours a day on the app while more than one third of *Weixin* users spent over 4 hours a day on *Weixin*. As at 30 September 2017, *QQ* has a total MAU of 843.2 million, of which smart devices MAU of 652.9 million.

We believe the depth of user engagement of our massive online communities are our critical competitive advantages. We plan to increase user engagement by enhancing user experience and broadening our range of products and services. For instance, we have introduced high quality content across a variety of online media platforms, including online video, literature, news, music and others. We have also sought to integrate these media platforms with our social platforms to create a holistic and differentiated social experience for users. We increasingly sought to differentiate user experience between our *Weixin/WeChat* and *QQ* platforms. We also sought to deepen "Connection" between our users, our core businesses and our strategic partners.

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 integrated 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 *Weixin/WeChat*, QQ, *Qzone* and other free services to fee-based services and products such as certain major PC and smart phone games, item-based sales on our platforms and membership subscriptions.

Our diverse collection of content, including differentiated and exclusive content, on our major digital media platforms, including video, literature, news, music and others, help attract users and drive conversion into paying users. Our ability to secure high quality and wide ranging content that match users' tastes and preferences will affect the monetisation capability and financial performance of our digital media platforms. These in turn helps to support the growth of our VAS revenues.

For the years ended 31 December 2014, 2015 and 2016, our VAS revenues were RMB63,310 million, RMB80,669 million and RMB107,810 million, respectively. For the nine months ended 30 September 2016 and 2017, our VAS revenues were RMB78,619 million and RMB114,036 million (US$17,140 million), respectively.

Ability to maintain our market position and protect brand equity

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 a social communication platform will likely consider *QQ* as their primary choice because of the brand recognition and market leading position. Similarly, *Weixin* has become the leading mobile social communication platform in the PRC. In January 2017, *Weixin* launched *Mini Program*, which we believe over time should help us broaden and deepen our service offering in a range of use cases, connect more offline services to online users, and provide more avenues for users to sample functionalities offered by other apps and thus increase the conversion rate for app downloads.

We have also maintained our leadership in the games market in the PRC and globally leveraging the success of our in-house and licensed titles. We rely on the success of in-house and third party game titles. The top PC client game in the PRC, *League of Legends*, was developed in-house by our subsidiary, *Riot Games,* and the top smart phone game in the PRC, *Honour of Kings*, was developed in-house by our subsidiary, *Timi Studio*. We reinforced our position as the preferred PRC publisher for local and overseas game developers, including *Electronic Arts*, *Activision Blizzard*, *Take2* and *Nexon* for PC client games, as well as *Shanda Games*, *Changyou*, *Giant Interactive* and *Kingsoft* for smart phone games. Internationally, we expanded our presence through investments in companies such as *Supercell Oy*, and we also published a few of our internally developed smart phone games in Southeast Asia. Our capability of maintaining the large user base and deepening user engagement of our social communication platforms are the keys to our ability to compete effectively and maintain our leading brand and market position as well as attract and expand relationships with our advertising customers and, in turn, grow our revenues.

With our diverse products and platforms and expanding user base, our products and platforms have gained considerable influence in wider society. Our products and platforms are subject to increased scrutiny from a social responsibility perspective. As a response, we limit the amount of playtime for adolescent players, which could impact our revenue and market position.

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 online game developers, content providers, application developers, app store operators (including Apple iOS app store and other Android app stores), device manufacturers, merchants, suppliers, advertising agencies and telecommunications operators. 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 *Weixin/WeChat, QQ*, *Qzone*, *QQ Game Platform* and *YingYongBao*, support third-party applications. We also have arrangements with advertising agencies. Our relationship with various content providers, including writers, music labels and video production studios, is critical for us to secure access to high quality copyrighted content on our media platforms.

The fees and costs for content (excluding amortisation of intangible assets) and advertising agency fees to third parties, plus Channel Costs and bandwidth and server custody fees, were RMB17,249 million, RMB27,277 million and RMB38,097 million for the years ended 31 December 2014, 2015 and 2016, respectively. The fees and costs for content and agency fees to third parties, plus Channel Costs and bandwidth and server custody fees increased by RMB16,827 million, or 60%, from RMB28,035 million for the nine months ended 30 September 2016 to RMB44,862 million (US$6,743 million) for the nine months ended 30 September 2017.

Our ability to maintain existing, as well as to 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

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 advanced mobile data platforms, may allow us to deliver more innovative product and service offerings to our users.

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 game titles, new expansion packs and new play-modes that can increase the lifespans of our popular smart phone game titles and further increase monetisation. We also strive to leverage our platforms to accelerate the growth of smart phone 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.

Our social networks business also represents a key growth driver for our VAS business. To maintain our leadership position and financial success of our social platforms, we must continue to secure high quality, relevant and diverse digital content that is attractive to our users. For instance, *TME* has strategic distribution agreements with the three largest global music labels, namely *Universal Music Group*, *Warner Music Group* and *Sony Music Group*. In addition, *Tencent Pictures* and *Penguin Pictures* are playing important roles in Tencent's strategy for the cultural and creative sectors, including in-depth collaboration with *Tencent Video*.

Ability to innovate and compete effectively against market competitors

The Internet industry is highly competitive, innovative and ever-changing due to the relatively low entry barrier and evolving preferences of users. Therefore, one of our challenges is to attract new users while maintaining our existing market share. Absence of new technology and product innovation would impair our core competitiveness compared with our competitors.

We focus on user experience by keeping track of the development of new technologies in a timely manner, capturing changes in user experience, and continuously developing products to meet the expectations of the market. In addition, as a proponent of "Internet+" and in order to foster its leading position in the industry, we have established a number of open platforms and strengthened our cooperation with business partners with the aim of enhancing mutual benefit.

We not only encourage our employees to innovate, but also allocate considerable resources to the research and development of new technologies and the optimisation of product features as well as enhancement of user experience of products.

A number of large competing ecosystems have emerged in the PRC, built around industry leaders with significant scale. Competition from large technology ecosystems in the PRC could have an impact on our performance. We enjoy a competitive advantage of having a massive and highly engaged user base, differentiated and wide ranging content and service offering, as well as strong financial, operational and technology capabilities.

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 at 31 December 2016 and applied for a renewal 3-year period from 2017 to 2019, 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 6.5% in 2017. 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 27,690, 30,641, 38,775, 38,072 and 43,472 as at the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively. As our workforce expands we incur additional staff costs as costs of revenues and operating expenses to our business. Our total remuneration costs were RMB15,451 million, RMB18,475 million, RMB23,433 million, RMB16,217 million and RMB25,634 million (US$3,853 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, 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* and *Beijing Starsinhand 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 three lines of business:

- VAS;
- online advertising; and
- others.

Our revenues were RMB78,932 million, RMB102,863 million, RMB151,938 million, RMB108,074 million and RMB171,368 million (US$25,757 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively. The following table sets forth our revenues by line of business for the periods indicated:

	Year ended 31 December						Nine months ended 30 September				
	2014		2015		2016		2016		2017		
	(RMB in millions)	*% of Total Revenues*	*(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	63,310	80	80,669	78	107,810	71	78,619	73	114,036	17,140	67
Online advertising	8,308	11	17,468	17	26,970	18	18,682	17	28,078	4,220	16
Others[1]	7,314	9	4,726	5	17,158	11	10,773	10	29,254	4,397	17
Total revenues	78,932	100	102,863	100	151,938	100	108,074	100	171,368	25,757	100

Note:

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

VAS

Revenues from VAS are derived principally from the provision of online games, community VAS, online digital content services and other applications across various Internet and mobile platforms. Our VAS is primarily provided on a subscription basis, per-item basis or revenue share basis.

We derive a substantial portion of online games revenues from virtual item sales. We have an extensive portfolio of market leading game titles across genres on both smart phone and PC. As at 30 September 2017, on our PC platform, we have 19 ACG game titles and 19 MMOG game titles. As at 30 September 2017, we offer over 100 smart phone games titles on *Weixin/WeChat* and *Mobile QQ*.

We also derive revenues from the massive and engaged user base across our social networks and platforms. Through providing upgrades to higher membership status and more value-added services, including *QQ Membership* subscription services, we generate privilege subscription revenues from membership. In addition, we also generate subscription revenues from offering access to premium digital content and other privileges on our digital content platforms, including *QQ Music VIP Membership* and *Tencent Video VIP Membership*. Through creating a highly engaging and interactive social experience, we also generate revenues from virtual gifting, including from *NOW* live broadcasting app and *WeSing* karaoke app. Another key contributor to our social networks VAS revenue is our revenue share on in-app item sales from third-party developers, including on our app store *YingYongBao*, *Weixin Game Centre, QQ Game Centre* and *Tencent Open Platform*.

Revenues from VAS were RMB63,310 million, RMB80,669 million, RMB107,810 million, RMB78,619 million and RMB114,036 million (US$17,140 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

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

Since the first quarter of 2017, online advertising revenues primarily comprise revenues from media advertising and social and others advertising. Media advertising relates to advertising on our video, news, music and other digital content properties. Significant traffic on our media properties provides us opportunities to drive monetisation through advertising. Social and others advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Official Accounts*, *QQ, Qzone* and our utilities properties, such as app store and browser as well as ad networks.

Revenues from online advertising were RMB8,308 million, RMB17,468 million, RMB26,970 million, RMB18,682 million and RMB28,078 million (US$4,220 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

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*".

Others

Revenues from our other businesses include provision of payment related services, cloud services and other services. Revenues from others was RMB7,314 million, RMB4,726 million, RMB17,158 million, RMB10,773 million and RMB29,254 million (US$4,397 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

The significant revenue growth from our other businesses is primarily driven by the growth of payment related and cloud services.

Cost of revenues

Our cost of revenues were RMB30,873million, RMB41,631 million, RMB67,439 million, RMB47,201 million and RMB85,938 million (US$12,917 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, 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, agency fees, cost of merchandise sold, channel costs, bandwidth and server custody fees, amortisation of intangible assets 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.

Interest income

Interest income mainly represents interest income from bank deposits including bank balance and term deposits.

Other gains, net

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

Selling and marketing expenses

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

General and administrative expenses

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

Finance costs, net

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

Income tax expense

We were not subject to any income tax in the Cayman Islands or the BVI in 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017. For the years ended 31 December 2014, 2015 and 2016, and the nine months ended 30 September 2016 and 2017, Hong Kong profits tax provision was provided on the estimated assessable profits at the rate of 16.5% and income tax on profits from other jurisdictions, including the U.S., Europe, East Asia and South America, has been calculated on the estimated assessable profits for the year at the rates prevailing in the relevant jurisdictions, ranging from 12.5% to 36%.

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 RMB5,125 million, RMB7,108 million, RMB10,193 million, RMB7,791 million and RMB12,621 million (US$1,897 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

According to the 2008 EIT Law, effective on 1 January 2008, there is a 25% corporate income tax for domestic and foreign-invested enterprises on their worldwide income. Under the 2008 EIT 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 EIT rate of 15% for a 3-year period from 2011 to 2013 and renewed for a 3-year period from 2014 to 2016 according to the applicable EIT Law. In addition, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, software enterprise that is entitled to the preferential tax rate of 10% as a national key software enterprise shall file its status with tax authorities for record in accordance with the relevant requirements upon the time of final tax settlement each year. The filing records will be subject to verification by relevant government authorities. Accordingly, PRC corporate income tax for the relevant subsidiaries of the Company applying for this preferential tax treatment has been provided for at their respective prevailing tax rates during the period. Upon completion of the verification process, the relevant subsidiaries of the Company will be entitled to corporate income tax rate of 10% and corresponding tax adjustments will be accounted for.

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Group are exempt from EIT 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.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are subject to a withholding tax rate of 10%. If a foreign investor is incorporated in Hong Kong, the relevant withholding tax rate could be reduced to 5% from 10% subject to the fulfilment of certain 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 and online advertising services in the PRC.

VAS

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

The VAS can be paid directly by end users by way of online payment channels or utilising prepaid cards and tokens (represented a specific amount of payment unit) issued by us. In addition, certain VAS are paid through various third parties platforms.

We sell the prepaid credits through various channels such as sales agents appointed by us, telecommunication operators, third party platform providers, broadband service providers and Internet cafes, etc. The end users can register the prepaid credits to their user accounts on our platforms and then gain access to our paid online products and services. Receipts from the sales of prepaid credits are deferred and recorded as "Deferred revenue" in the consolidated statement of financial position.

Revenue is recognised from the sales of online services when the services are rendered. Revenue is recognised from the virtual products/items on our Internet/mobile platforms over the estimated lifespan of the respective virtual products/items. The estimated lifespan of different virtual products/items are determined by the management based on either the expected user relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective term of virtual products/items.

In respect of our VAS services directly delivered to our customers and paid through various third parties platforms, these third party platforms collect the relevant service fees (the "Internet and Mobile Service Fees") on behalf of us and they are entitled to a pre-determined percentage of commission fee (the "**Channel Costs**"). The Channel Costs are withheld and deducted from the gross Internet and Mobile Service Fees collected by these platforms from the users, with the net amounts remitted to us. We recognise the Internet and Mobile Service Fees as revenue on a gross basis, given we are the principal in these transactions, and recognises the Channel Costs as cost of revenues.

We also open our Internet and mobile platforms to third-party game/application developers under certain co-operation agreements, where we are paid a pre-determined percentage of the fees paid by and collected from our Internet and mobile platforms users for the virtual products/items purchased from the third-party game/application developers. We recognise the related revenue on a gross or net basis depending on whether we are acting as a principal or an agent in the transaction. We also defer the related revenue, either on gross or net basis, over the estimated lifespan of the respective virtual products/items, since there is an implicit obligation on us to maintain and allow access to the users of the games/applications operated by the developers through our platforms.

Determining whether our revenue should be reported gross or net is based on a continuing assessment of various factors. The primary factor is whether we are acting as the principal in offering services to the customer or as an agent in the transaction. We have determined that we are acting as the principal in offering services wherever we (i) are the primary obligor in the arrangement; (ii) have latitude in establishing the selling price; (iii) have discretion in suppliers selection; and (iv) have involvement in the determination of product or services specifications. We adopted different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

Online advertising

Since the first quarter of 2017, online advertising revenues primarily comprise revenues from media advertising and social and others advertising. Media advertising relates to advertising on our video, news, music and other digital content properties. Significant traffic on our media properties provides us opportunities to drive monetisation through advertising. Social and others advertising relates to advertising on our social properties, such as *Weixin Moments*, *Weixin Official Accounts*, *QQ, Qzone* and our utilities properties, such as app store and browser as well as ad networks.

Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

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.

Share-based Compensation Benefits

We operate a number of share-based compensation plans (including share option schemes and share award schemes) , under which we receive services from employees and other qualifying participants as consideration for equity instrument (including share options and awarded shares) from us. The fair value of services from employees and other qualifying participants received in exchange for the grant of equity instruments are 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 premium under equity. For grant of share options, the total expense is determined by reference to the fair value of the options granted by using option-pricing models — Black-Scholes valuation model and "Enhanced FAS 123" binomial model, which include the impact of market performance conditions (such as the Company's share price) but exclude the impact of service condition and non-market performance conditions. For grant of award shares, the total expense is determined by reference to the market price of the Company's shares at the grant date. We also adopt valuation technique to assess the fair value of other equity instruments we granted under the share-based compensation plans as appropriate. The fair value of options granted was determined using the valuation models and it was approximately HK$508 million, HK$76 million and HK$668 million for the years ended 31 December 2014, 2015 and 2016, respectively.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

At each reporting period end, we revise the estimates of the number of options and awarded shares that are expected to ultimately vest. We recognize the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment made to equity over the remaining vesting period.

Income Taxes

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

Recoverability of non-financial assets and instruments in redeemable instruments of associates

We test annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property, plant and equipment, construction in progress, other intangible assets, investment properties, land use rights, and investments in associates and joint ventures, as well as investments in redeemable instruments of associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to identify impairment indicators for goodwill and non-financial assets, to determine appropriate impairment approaches, such as fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect our financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charges in our consolidated income statements.

RESULTS OF OPERATIONS

Three Months Ended 30 September 2017 Compared to Three Months Ended 30 September 2016

Revenues. Revenues increased by RMB24,822 million, or 61%, from RMB40,388 million for the three months ended 30 September 2016 to RMB65,210 million (US$9,801 million) for the three months ended 30 September 2017.

The following table sets forth our revenues by line of business for the three months ended 30 September 2016 and 2017:

	Three months ended 30 September				
	2016		2017		
	(Unaudited) Amount	% of total revenues		(Unaudited) Amount	% of total revenues
	(RMB in millions)		*(RMB in millions)*	*(US$ in millions)*	
VAS	27,975	69	42,124	6,331	65
Online advertising	7,449	19	11,042	1,660	17
Others	4,964	12	12,044	1,810	18
Total revenues	**40,388**	**100**	**65,210**	**9,801**	**100**

Revenues from VAS increased by RMB14,149 million, or 51%, from RMB27,975 million for the three months ended 30 September 2016 to RMB42,124 million (US$6,331 million) for the three months ended 30 September 2017. Online games revenues grew by 48% to RMB26,844 million (US$4,034 million). The increase mainly reflected contributions from our smart phone games, including existing titles such as *Honour of Kings*, the China version of *Contra Return*, and *Legacy TLBB Mobile*, and new titles such as *Legend of Xuan Yuan Mobile*, *Journey to the Fairyland Mobile* and *Kings of Chaos*. Revenues from PC client games also increased, benefiting from our key titles such as *Dungeon & Fighter* and *League of Legends*. Social networks revenues increased by 56% to RMB15,280 million (US$2,297 million). The increase was primarily driven by revenue growth from digital content services such as live broadcast and subscription video on-demand, as well as from in-game virtual item sales. As a percentage of revenues, revenues from VAS decreased from 69% for the three months ended 30 September 2016 to 65% for the three months ended 30 September 2017.

Revenues from online advertising increased by RMB3,593 million, or 48%, from RMB7,449 million for the three months ended 30 September 2016 to RMB11,042 million (US$1,660 million) for the three months ended 30 September 2017. Media advertising revenues grew by 29% year-on-year to RMB4,122 million (US$620 million) primarily due to growth in revenues from our mobile media platforms such as *Tencent Video*, but was adversely affected by the high base effect from the Olympics during the third quarter of 2016. Social and others advertising revenues grew by 63% to RMB6,920 million (US$1,040 million) mainly reflecting growth in advertising revenues derived from *Weixin* (primarily *Weixin Moments* and *Weixin Official Accounts)* and other mobile apps. As a percentage of revenues, revenues from online advertising decreased from 19% for the three months ended 30 September 2016 to 17% for the three months ended 30 September 2017.

Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 61% to RMB7,017 million and brand display advertising revenues increased by 31% to RMB4,025 million for the three months ended 30 September 2017 on a year-on-year basis.

Revenues from others increased by 143%, from RMB4,964 million for the three months ended 30 September 2016 to RMB12,044 million (US$1,810 million) for the three months ended 30 September 2017. The increase primarily reflected higher revenues from our payment related and cloud services. As a percentage of revenues, revenues from others increased from 12% for the three months ended 30 September 2016 to 18% for the three months ended 30 September 2017.

Cost of revenues. Cost of revenues increased by RMB14,969 million, or 81%, from RMB18,560 million for the three months ended 30 September 2016 to RMB33,529 million (US$5,039 million) for the three months ended 30 September 2017. The increase primarily reflected greater sharing and content costs, costs of payment related services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 51% for the three months ended 30 September 2017 from 46% for the three months ended 30 September 2016.

The following table sets forth our cost of revenues by line of business for the three months ended 30 September 2016 and 2017:

	Three months ended 30 September				
	2016		2017		
	(Unaudited) Amount	**% of segment revenues**	**(Unaudited) Amount**		**% of segment revenues**
	(RMB in millions)		*(RMB in millions)*	*(US$ in millions)*	
VAS	9,748	35	16,903	2,540	40
Online advertising	4,748	64	7,031	1,057	64
Others	4,064	82	9,595	1,442	80
Total cost of revenues	**18,560**		**33,529**	**5,039**	

Cost of revenues for VAS increased by RMB7,155 million, or 73%, from RMB9,748 million for the three months ended 30 September 2016 to RMB16,903 million (US$2,540 million) for the three months ended 30 September 2017. The increase was primarily driven by greater sharing and content costs, as well as higher channel costs for our smart phone games, in turn due to extended cooperation with third-party app stores. As a percentage of revenues generated from the same segment, cost of revenues from VAS increased from 35% for the three months ended 30 September 2016 to 40% for the three months ended 30 September 2017.

Cost of revenues for online advertising increased by RMB2,283 million, or 48%, from RMB4,748 million for the three months ended 30 September 2016 to RMB7,031 million (US$1,057 million) for the three months ended 30 September 2017. The increase was mainly due to greater investments in video content, traffic acquisition costs, as well as bandwidth and server custody fees. As a percentage of revenues generated from the same segment, cost of revenues from online advertising remained at 64% for the three months ended 30 September 2016 and 2017.

Cost of revenues for others increased by RMB5,531 million, or 136%, from RMB4,064 million for the three months ended 30 September 2016 to RMB9,595 million (US$1,442 million) for the three months ended 30 September 2017. The increase was mainly driven by greater costs in payment related and cloud services.

Gross profit. Gross profit increased by RMB9,853 million, or 45%, from RMB21,828 million for the three months ended 30 September 2016 to RMB31,681 million (US$4,762 million) for the three months ended 30 September 2017. Our gross margin was 49% for the three months ended 30 September 2017 as compared to 54% for the three months ended 30 September 2016.

Interest income. Interest income increased by RMB380 million, or 60%, from RMB637 million for the three months ended 30 September 2016 to RMB1,017 million (US$153 million) for the three months ended 30 September 2017.

Other gains, net. We recorded net other gains, totalling RMB3,918 million (US$589 million) for the three months ended 30 September 2017, which primarily consisted of deemed disposal gains arising from the capital activities of certain investee companies including the IPO of ZhongAn Insurance, fair value gains due to increases in valuations of certain investments in verticals such as healthcare, as well as subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by RMB1,535 million, or 47%, from RMB3,277 million for the three months ended 30 September 2016 to RMB4,812 million (US$723 million) for the three months ended 30 September 2017. The increase mainly reflected greater marketing spending on products and platforms such as online games and online media, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses decreased to 7% for the three months ended 30 September 2017 from 8% for the three months ended 30 September 2016.

General and administrative expenses. General and administrative expenses increased by RMB3,175 million, or 54%, from RMB5,883 million for the three months ended 30 September 2016 to RMB9,058 million (US$1,362 million) for the three months ended 30 September 2017. The increase was primarily driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased from 15% for the three months ended 30 September 2016 to 14% for the three months ended 30 September 2017.

Operating profit. Operating profit increased by RMB8,286 million, or 57%, from RMB14,460 million for the three months ended 30 September 2016 to RMB22,746 million (US$3,419 million) for the three months ended 30 September 2017.

Finance costs, net. Net finance costs decreased by RMB80 million, or 13%, to RMB524 million (US$79 million) for the three months ended 30 September 2017 from RMB604 million for the three months ended 30 September 2016. The decrease mainly reflected the recognition of foreign exchange gains for the three months ended 30 September 2017, compared to foreign exchange losses for the same period last year, largely offset by an increase in interest expenses.

Share of profits/(losses) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB818 million for the three months ended 30 September 2017, compared to share of losses of RMB619 million for the three months ended 30 September 2016 primarily because some of our investee companies registered profits (in some cases including one-off gains) for the three months ended 30 September 2017, compared to losses for the three months ended 30 September 2016.

Profit before income tax. Profit before income tax increased by RMB9,803 million, or 74%, from RMB13,237 million for the three months ended 30 September 2016 to RMB23,040 million (US$3,463 million) for the three months ended 30 September 2017.

Income tax expense. Income tax expense increased by RMB2,532 million, or 103%, from RMB2,461 million for the three months ended 30 September 2016 to RMB4,993 million (US$751 million) for the three months ended 30 September 2017. The increase primarily reflected higher profit before income tax and withholding tax.

Profit for the period. As a result of the factors discussed above, profit for the period increased by RMB7,271 million, or 67%, from RMB10,776 million for the three months ended 30 September 2016 to RMB18,047 million (US$2,712 million) for the three months ended 30 September 2017. Our net margin increased from 27% for the three months ended 30 September 2016 to 28% for the three months ended 30 September 2017.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB7,360 million, or 69%, from RMB10,646 million for the three months ended 30 September 2016 to RMB18,006 million (US$2,706 million) for the three months ended 30 September 2017.

Three Months Ended 30 June 2017 Compared to Three Months Ended 30 June 2016

Revenues. Revenue increased by RMB20,915 million, or 59%, from RMB35,691 million for the three months ended 30 June 2016 to RMB56,606 million for the three months ended 30 June 2017.

The following table sets forth our revenues by line of business for the three months ended 30 June 2016 and 2017:

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

Revenues from VAS increased by RMB11,124 million, or 43%, from RMB25,680 million for the three months ended 30 June 2016 to RMB36,804 million for the three months ended 30 June 2017. Online games revenues increased by 39% year-on-year to RMB23,861 million, primarily driven by revenue growth from our smart phone games, including existing titles such as *Honour of Kings,* and new titles such as the China version of *Contra Return, Dragon Nest Mobile* and *Legacy TLBB Mobile*, and from our key PC titles such as *League of Legends* and *Dungeon & Fighter*. Social networks revenues increased by 51% year-on-year to RMB12,943 million, mainly reflecting growth in revenues from digital content services such as live broadcast, video and music, as well as from virtual item sales. As a percentage of revenues, revenues from VAS decreased from 72% for the three months ended 30 June 2016 to 65% for the three months ended 30 June 2017.

Revenues from online advertising increased by RMB3,616 million, or 55%, from RMB6,532 million for the three months ended 30 June 2016 to RMB10,148 million for the three months ended 30 June 2017. Media advertising revenues grew by 48% year-on-year to RMB4,077 million. The increase mainly reflected higher traffic and thus revenues from our *Tencent Video* services and the development of news feeds for our *Tencent News* products. Social and others advertising revenues grew by 61% year-on-year to RMB6,071 million. This increase primarily reflected growth in advertising revenues derived from *Weixin (primarily Weixin Moments* and *Weixin Official Accounts*) and other mobile apps. As a percentage of revenues, revenues from online advertising was 18% for both the three months ended 30 June 2016 and the three months ended 30 June 2017.

Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 71% to RMB6,332 million and brand display advertising revenues increased by 35% to RMB3,816 million for the three months ended 30 June 2017 on a year-on-year basis.

Revenues from others increased by RMB6,175 million, or 177%, from RMB3,479 million for the three months ended 30 June 2016 to RMB9,654 million for the three months ended 30 June 2017. The increase was primarily due to revenue growth from our payment related and cloud services. As a percentage of revenues, revenues from others increased from 10% for the three months ended 30 June 2016 to 17% for the three months ended 30 June 2017.

Cost of revenues. Cost of revenues increased by RMB13,065 million, or 86%, from RMB15,235 million for the three months ended 30 June 2016 to RMB28,300 million for the three months ended 30 June 2017. The increase mainly reflected greater sharing and content costs, costs of payment related services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 50% for the three months ended 30 June 2017 from 43% for the three months ended 30 June 2016, primarily due to business mix changes.

The following table sets forth our cost of revenues by line of business for the three months ended 30 June 2016 and 2017:

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

Cost of revenues for VAS increased by RMB5,951 million, or 70%, from RMB8,550 million for the three months ended 30 June 2016 to RMB14,501 million for the three months ended 30 June 2017. The increase primarily reflected greater sharing and content costs, as well as greater channel costs for our smart phone games, in turn due to closer cooperation with third-party app stores and an increased share of smart phone game revenues from iOS. As a percentage of revenues from VAS generated from the same segment, cost of revenues increased from 33% for the three months ended 30 June 2016 to 39% for the three months ended 30 June 2017.

Cost of revenues for online advertising increased by RMB2,732 million, or 76%, from RMB3,575 million for the three months ended 30 June 2016 to RMB6,307 million for the three months ended 30 June 2017.The increase was primarily due to greater investment in, and amortisation of, video content, particularly self-commissioned video content. Other costs such as traffic acquisition costs also increased. As a percentage of revenues generated from the same segment, cost of revenues from online advertising increased from 55% for the three months ended 30 June 2016 to 62% for the three months ended 30 June 2017.

Cost of revenues for others increased by RMB4,382 million, or 141%, from RMB3,110 million for the three months ended 30 June 2016 to RMB7,492 million for the three months ended 30 June 2017. The increase was primarily due to greater costs in payment related and cloud services.

Gross profit. Gross profit increased by RMB7,850 million, or 38%, from RMB20,456 million for the three months ended 30 June 2016 to RMB28,306 million for the three months ended 30 June 2017. Our gross margin was 50% for the three months ended 30 June 2017 as compared to 57% for the three months ended 30 June 2016.

Interest income. Interest income increased by RMB333 million, or 53%, from RMB626 million for the three months ended 30 June 2016 to RMB959 million for the three months ended 30 June 2017.

Other gains, net. We recorded net other gains totalling RMB5,125 million for the three months ended 30 June 2017, which primarily consisted of fair value gains as a result of significant increases in valuations of certain investments in verticals including bike sharing and fintech, as well as deemed disposal gains arising from the capital activities of certain investee companies, particularly the IPO of Korean mobile game publisher Netmarble, partly offset by impairment provisions charges for certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB1,295 million, or 55%, from RMB2,365 million for the three months ended 30 June 2016 to RMB3,660 million for the three months ended 30 June 2017. The increase mainly reflected greater marketing spending on products and platforms such as online games, payment related services and online media, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses decreased to 6% for the three months ended 30 June 2017 from 7% for the three months ended 30 June 2016.

General and administrative expenses. General and administrative expenses increased by RMB2,871 million, or 54%, from RMB5,299 million for the three months ended 30 June 2016 to RMB8,170 million for the three months ended 30 June 2017. The increase was primarily driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 14% for the three months ended 30 June 2017 from 15% for the three months ended 30 June 2016.

Operating profit. Operating profit increased by RMB8,231 million, or 57%, from RMB14,329 million for the three months ended 30 June 2016 to RMB22,560 million for the three months ended 30 June 2017.

Finance costs, net. Net finance costs increased by RMB457 million, or 121%, from RMB377 million in the three months ended 30 June 2016 to RMB834 million for the three months ended 30 June 2017.The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Share of profits/(losses) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB498 million for the three months ended 30 June 2017, compared to share of losses of RMB292 million for the three months ended 30 June 2016 primarily because some of our investee companies registered profits (in some cases including one-off gains) for the three months ended 30 June 2017, compared to losses for the three months ended 30 June 2016.

Profit before income tax. Profit before income tax increased by RMB8,564 million, or 63%, from RMB13,660 million for the three months ended 30 June 2016 to RMB22,224 million for the three months ended 30 June 2017.

Income tax expense. Income tax expense increased by RMB1,190 million, or 43%, from RMB2,780 million for the three months ended 30 June 2016 to RMB3,970 million for the three months ended 30 June 2017. The increase primarily reflected greater profit before income tax and withholding tax.

Profit for the period. As a result of the factors discussed above, profit for the period increased by RMB7,374 million, or 68%, from RMB10,880 million for the three months ended 30 June 2016 to RMB18,254 million for the three months ended 30 June 2017. Our net margin increased from 30% for the three months ended 30 June 2016 to 32% for the three months ended 30 June 2017.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB7,494 million, or 70%, from RMB10,737 million for the three months ended 30 June 2016 to RMB18,231 million for the three months ended 30 June 2017.

Three Months Ended 31 March 2017 Compared to Three Months Ended 31 March 2016

Revenues. Revenue increased by RMB17,557 million, or 55%, from RMB31,995 million for the three months ended 31 March 2016 to RMB49,552 million for the three months ended 31 March 2017.

The following table sets forth our revenues by line of business for the three months ended 31 March 2016 and 2017:

	Three months ended 31 March			
	2016		2017	
	(Unaudited) Amount	% of total revenues	(Unaudited) Amount	% of total revenues
	(RMB in millions)		*(RMB in millions)*	
VAS	24,964	78	35,108	71
Online advertising	4,701	15	6,888	14
Others	2,330	7	7,556	15
Total revenues	**31,995**	**100**	**49,552**	**100**

Revenues from VAS increased by RMB10,144 million, or 41%, from RMB24,964 million for the three months ended 31 March 2016 to RMB35,108 million for the three months ended 31 March 2017. Online games revenues grew by 34% year-on-year to RMB22,811 million. The increase primarily reflected higher revenues from both smart phone games (such as *Honour of Kings* and *Dragon Nest Mobile*) and PC client games (such as *League of Legends* and *Dungeon & Fighter*). Social networks revenues grew by 56% year-on-year to RMB12,297 million. The increase primarily reflected revenue growth from digital content services, including digital music, video and literature services, and from virtual item sales. As a percentage of revenues, revenues from VAS decreased from 78% for the three months ended 31 March 2016 to 71% for the three months ended 31 March 2017.

Revenues from online advertising increased by RMB2,187 million, or 47%, from RMB4,701 million for the three months ended 31 March 2016 to RMB6,888 million for the three months ended 31 March 2017. In light of the increasingly blurred boundaries between performance-based advertising and brand display advertising, and advertisers increasingly purchasing performance ads on traditionally brand-oriented inventories, we have reclassified online advertising revenues by advertising properties, rather than advertising pricing models.

Media advertising revenues (mainly including those generated from our news, video and music properties) increased by 20% year-on-year to RMB2,509 million, primarily reflecting growth in revenues from our mobile media platform, *Tencent News* and *Tencent Video*. Social and others advertising revenues (mainly including those generated from our social properties, app store, browser and advertisement networks) grew by 67% year-on-year to RMB4,379 million, mainly driven by higher advertising revenues derived from *Weixin Moments*, *Weixin Official Accounts*, our app store, and our mobile browser. As a percentage of revenues, revenues from online advertising decreased from 15% for the three months ended 31 March 2016 to 14% for the three months ended 31 March 2017.

Revenues from others increased by RMB5,226 million, or 224%, from RMB2,330 million for the three months ended 31 March 2016 to RMB7,556 million for the three months ended 31 March 2017. The increase was primarily driven by higher revenues from our payment related and cloud services.As a percentage of revenues, revenues from others increased from 7% for the three months ended 31 March 2016 to 15% for the three months ended 31 March 2017.

Cost of revenues. Cost of revenues increased by RMB10,703 million, or 80%, from RMB13,406 million for the three months ended 31 March 2016 to RMB24,109 million for the three months ended 31 March 2017. The increase mainly reflected greater sharing and content costs, costs of payment related services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 49% for the three months ended 31 March 2017 from 42% for the three months ended 31 March 2016, mainly reflecting changes in business operations.

The following table sets forth our cost of revenues by line of business for the three months ended 31 March 2016 and 2017:

	Three months ended 31 March			
	2016		2017	
	(Unaudited) Amount *(RMB in millions)*	% of segment revenues	(Unaudited) Amount *(RMB in millions)*	% of segment revenues
VAS	8,590	34	13,717	39
Online advertising	2,649	56	4,489	65
Others	2,167	93	5,903	78
Total cost of revenues	**13,406**		**24,109**	

Cost of revenues for VAS increased by RMB5,127 million, or 60%, from RMB8,590 million for the three months ended 31 March 2016 to RMB13,717 million for the three months ended 31 March 2017. The increase primarily reflected greater sharing and content costs, notably for our video subscription service, as well as channel costs for our smart phone games. As a percentage of revenues generated from the same segment, cost of revenues increased from 34% for the three months ended 31 March 2016 to 39% for the three months ended 31 March 2017.

Cost of revenues for online advertising increased by RMB1,840 million, or 69%, from RMB2,649 million for the three months ended 31 March 2016 to RMB4,489 million for the three months ended 31 March 2017.The increase mainly reflected greater investment in video content, traffic acquisition costs and commissions payable to advertising agencies.As a percentage of revenues generated from the same segment, cost of revenues increased from 56% for the three months ended 31 March 2016 to 65% for the three months ended 31 March 2017.

Cost of revenues for others increased by RMB3,736 million, or 172%, from RMB2,167 million for the three months ended 31 March 2016 to RMB5,903 million for the three months ended 31 March 2017. The increase was primarily due to greater costs in payment related and cloud services, commensurate with our business growth for those services.

Gross profit. Gross profit increased by RMB6,854 million, or 37%, from RMB18,589 million for the three months ended 31 March 2016 to RMB25,443 million for the three months ended 31 March 2017. Our gross margin was 51% for the three months ended 31 March 2017 as compared to 58% for the three months ended 31 March 2016.

Interest income. Interest income increased by RMB105 million, or 15%, from RMB703 million for the three months ended 31 March 2016 to RMB808 million for the three months ended 31 March 2017.

Other gains, net. We recorded other net gains totalling RMB3,191 million for the three months ended 31 March 2017, which primarily consisted of net disposal/deemed disposal gains and dividend income arising from certain investee companies, as well as subsidies and tax rebates, partly offset by donations made to Tencent Charity Fund and impairment provision charges for certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by RMB1,126 million, or 55%, from RMB2,032 million for the three months ended 31 March 2016 to RMB3,158 million for the three months ended 31 March 2017. The increase mainly reflected greater marketing and promotional expenses, as well as staff costs. As a percentage of revenues, selling and marketing expenses were 6% for the three months ended 31 March 2017, which was broadly stable compared to the three months ended 31 March 2016.

General and administrative expenses. General and administrative expenses increased by RMB2,644 million, or 61%, from RMB4,368 million for the three months ended 31 March 2016 to RMB7,012 million for the three months ended 31 March 2017. The increase was primarily driven by greater research and development expenses as well as staff costs, including share-based compensation expenses. As a percentage of revenues, general and administrative expenses were 14% for the three months ended 31 March 2017, which was slightly higher compared to the three months ended 31 March 2016.

Operating profit. Operating profit increased by RMB5,874 million, or 44%, from RMB13,398 million for the three months ended 31 March 2016 to RMB19,272 million for the three months ended 31 March 2017.

Finance costs, net. Net finance costs increased by RMB200 million, or 41%, from RMB491 million in the three months ended 31 March 2016 to RMB691 million for the three months ended 31 March 2017.The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Profit before income tax. Profit before income tax increased by RMB6,388 million, or 54%, from RMB11,818 million for the three months ended 31 March 2016 to RMB18,206 million for the three months ended 31 March 2017.

Income tax expense. Income tax expense increased by RMB1,108 million, or 43%, from RMB2,550 million for the three months ended 31 March 2016 to RMB3,658 million for the three months ended 31 March 2017. The increase primarily reflected greater profit before income tax and withholding tax.

Profit for the period. As a result of the factors discussed above, profit for the period increased by RMB5,280 million, or 57%, from RMB9,268 million for the three months ended 31 March 2016 to RMB14,548 million for the three months ended 31 March 2017. Our net margin remained at 29% for the three months ended 31 March 2016 and 2017.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB5,293 million, or 58%, from RMB9,183 million for the three months ended 31 March 2016 to RMB14,476 million for the three months ended 31 March 2017.

Year Ended 31 December 2016 Compared to Year Ended 31 December 2015

Revenues. Revenues increased by RMB49,075 million, or 48%, from RMB102,863 million in 2015 to RMB151,938 million in 2016.

The following table sets forth our revenues by line of business for the years ended 31 December 2015 and 2016:

	Year ended 31 December			
	2015		**2016**	
	Amount *(RMB in millions)*	**% of total revenues**	**Amount** *(RMB in millions)*	**% of total revenues**
VAS	80,669	78	107,810	71
Online advertising	17,468	17	26,970	18
Others	4,726	5	17,158	11
Total revenues	**102,863**	**100**	**151,938**	**100**

Revenues from VAS increased by RMB27,141 million, or 34%, from RMB80,669 million in 2015 to RMB107,810 million in 2016. Online games revenues grew by RMB14,257 million, or 25%, from RMB56,587 million in 2015 to RMB70,844 million in 2016. The increase primarily reflected growth in revenues from major smart phone games such as *Honour of Kings*, *CrossFire Mobile* and *JX Mobile* and certain major PC client games. Revenues from our social networks increased by RMB12,884 million, or 54%, from RMB24,082 million in 2015 to RMB36,966 million in 2016. The increase mainly reflected growth in revenues from digital content services and virtual item sales.

Revenues from online advertising increased by RMB9,502 million, or 54%, from RMB17,468 million in 2015 to RMB26,970 million in 2016. Performance-based advertising revenues grew by 81% to RMB15,765 million, mainly driven by growth in advertising revenues derived from *Weixin Moments*, our mobile news apps, and *Weixin Official Accounts*. Brand display advertising revenues increased by 28% to RMB11,205 million, primarily driven by higher revenues from our mobile media platforms such as *Tencent News* and *Tencent Video*. As a percentage of revenues, revenues from online advertising increased from 17% in 2015 to 18% in 2016.

Revenues from others increased by RMB12,432 million, or 263%, from RMB4,726 million in 2015 to RMB17,158 million in 2016. As a percentage of revenues, revenues from others increased from 5% in 2015 to 11% in 2016.

Cost of revenues. Cost of revenues increased by RMB 25,808 million, or 62%, from RMB41,631 million in 2015 to RMB67,439 million in 2016. The increase primarily reflected greater sharing and content costs, costs of payment related services, and channel costs. As a percentage of revenues, cost of revenues increased to 44% for the year ended 31 December 2016 from 40% for the year ended 31 December 2015, primarily due to business mix changes.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2015 and 2016:

	Year ended 31 December			
	2015		**2016**	
	Amount	**% of segment revenues**	**Amount**	**% of segment revenues**
	(RMB in millions)		*(RMB in millions)*	
VAS	28,422	35	37,622	35
Online advertising	8,941	51	15,396	57
Others	4,268	90	14,421	84
Total cost of revenues	**41,631**		**67,439**	

Cost of revenues for VAS increased by RMB9,200 million, or 32%, from RMB28,422 million in 2015 to RMB37,622 million in 2016. The increase mainly reflected greater sharing and content costs as well as channel costs as a result of higher revenues. As a percentage of revenues generated from the same segment, cost of revenues remained the same at 35% in 2015 and 2016.

Cost of revenues for online advertising increased by RMB6,455 million, or 72%, from RMB8,941 million in 2015 to RMB15,396 million in 2016. The increase was mainly driven by greater investment in video content, to a lesser extent by higher traffic acquisition costs and staff costs. As a percentage of revenues generated from the same segment, cost of revenues increased from 51% in 2015 to 57% in 2016.

Cost of revenues for others increased by RMB10,153 million, or 238%, from RMB4,268 million in 2015 to RMB14,421 million in 2016. The increase was mainly driven by greater costs in payment related and cloud services.

Gross profit. Gross profit increased by RMB23,267 million, or 38%, from RMB61,232 million in 2015 to RMB84,499 million in 2016. Our gross margin was 56% in 2016 as compared to 60% in 2015.

Interest income. Interest income increased by RMB292 million, or 13%, from RMB2,327 million in 2015 to RMB2,619 million in 2016.

Other gains, net. We recorded net other gains, totalling RMB3,594 million in 2016, which primarily consisted of net disposal and deemed disposal gains arising from certain investee companies, and fair value gains on options we own in an investee company, partially offset by impairment provision charges for certain investee companies and donations made to the Tencent Charity Fund.

Selling and marketing expenses. Selling and marketing expenses increased by RMB4,143 million, or 52%, from RMB7,993 million in 2015 to RMB12,136 million in 2016. The increase mainly reflected greater marketing spending on products and platforms such as online media, online games and payment related services, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses remained the same at 8% in 2015 and 2016.

General and administrative expenses. General and administrative expenses increased by RMB5,634 million, or 33%, from RMB16,825 million in 2015 to RMB22,459 million in 2016. The increase was primarily driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased from 16% in 2015 to 15% in 2016.

Operating profit. Operating profit increased by RMB15,490 million, or 38%, from RMB40,627 million in 2015 to RMB56,117 million in 2016.

Finance costs, net. We recorded finance costs, net of RMB1,955 million in 2016 compared to finance costs, net of RMB1,618 million in 2015. The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Profit before income tax. Profit before income tax increased by RMB15,424 million, or 43%, from RMB36,216 million in 2015 to RMB51,640 million in 2016.

Income tax expense. Income tax expense increased by RMB3,085 million, or 43%, from RMB7,108 million in 2015 to RMB10,193 million in 2016. The increase primarily reflected higher profit before income tax and withholding taxes.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB12,339 million, or 42%, from RMB29,108 million in 2015 to RMB41,447 million in 2016. Our profit margin decreased from 28% in 2015 to 27% in 2016.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB12,289 million, or 43%, from RMB28,806 million for the year ended 31 December 2015 to RMB41,095 million for the year ended 31 December 2016.

Year Ended 31 December 2015 Compared to Year Ended 31 December 2014

Revenues. Revenues increased by RMB23,931 million, or 30%, from RMB78,932 million in 2014 to RMB102,863 million in 2015.

The following table sets forth our revenues by line of business for the years ended 31 December 2014 and 2015:

	Year ended 31 December			
	2014		**2015**	
	Amount *(RMB in millions)*	**% of total revenues**	**Amount** *(RMB in millions)*	**% of total revenues**
VAS[1]	63,310	80	80,669	78
Online advertising	8,308	11	17,468	17
Others[2]	7,314	9	4,726	5
Total revenues	**78,932**	**100**	**102,863**	**100**

Note:

(1) We recognise revenues from smart phone games we publish exclusively on a gross basis from the fourth quarter of 2014 onward, primarily to reflect changes in our co-operation models that qualify us as principal, rather than agent, for certain licensed titles. Correspondingly, we record revenue sharing with third-party developers and channel costs of these titles in costs of revenues, instead of treating them as contra-revenue items. Net versus gross revenue recognition does not impact the Group's profits.

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

Revenues from VAS increased by RMB17,359 million, or 27%, from RMB63,310 million in 2014 to RMB80,669 million in 2015. Online games revenues grew by RMB11,831 million, or 26%, from RMB44,756 million in 2014 to RMB56,587 million in 2015. The increase primarily reflected growth in revenues from smart phone games, mainly driven by our diversified game portfolio and, to a lesser extent, the impact of the aforementioned adoption of gross revenue recognition. Revenues from PC client games also contributed to the increase, primarily driven by our key titles and new games launched in 2015. Revenues from our social networks increased by RMB5,528 million, or 30%, from RMB18,554 million in 2014 to RMB24,082 million in 2015. The increase mainly reflected higher subscription revenues from digital content subscription services and *QQ Membership*, as well as revenue growth from virtual item sales. If gross revenue recognition for smart phone games had been adopted for the year ended 31 December 2014, revenues from our VAS business would have increased by 24%, of which online games revenues would have increased by 23% and social networks revenues would have increased by 27% for the year ended 31 December 2015.

Revenues from online advertising increased by RMB9,160 million, or 110%, from RMB8,308 million in 2014 to RMB17,468 million in 2015. Performance-based advertising revenues grew by 172% to RMB8,693 million, mainly driven by revenue growth from *Mobile Qzone*, the full year impact of advertising revenues from *Weixin Official Accounts*, as well as contributions from newly launched advertising services on *Weixin Moments* Brand display advertising revenues increased by 72% to RMB8,775 million, primarily driven by higher revenues from our mobile media platforms such as *Tencent Video* and *Tencent News*, which benefited from more traffic. As a percentage of revenues, revenues from online advertising increased from 11% in 2014 to 17% in 2015.

Revenues from others, including eCommerce, decreased by RMB2,588 million, or 35%, from RMB7,314 million in 2014 to RMB4,726 million in 2015. As a percentage of revenues, revenues from others decreased from 9% in 2014 to 5% 2015.

Cost of revenues. Cost of revenues increased by RMB10,758 million, or 35%, from RMB30,873 million in 2014 to RMB41,631 million in 2015. The increase primarily reflected greater sharing and content costs, channel costs, as well as bank handling fees on C2C money transfers, partially offset by a decline in cost of merchandise sold due to decreased revenues from principal eCommerce transactions. As a percentage of revenues, cost of revenues increased to 40% for the year ended 31 December 2015 from 39% for the year ended 31 December 2014.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2014 and 2015:

	Year ended 31 December			
	2014		**2015**	
	Amount *(RMB in millions)*	**% of segment revenues**	**Amount** *(RMB in millions)*	**% of segment revenues**
VAS	20,619	33	28,422	35
Online advertising	4,660	56	8,941	51
Others(1)	5,594	76	4,268	90
Total cost of revenues	**30,873**		**41,631**	

Note:

(1) Cost of revenues for "Others" business segment include cost of merchandise sold of principal eCommerce transactions and other eCommerce costs of revenue since the first quarter of 2015. Comparative figures have been reclassified to conform to the new presentation.

Cost of revenues for VAS increased by RMB7,803 million, or 38%, from RMB20,619 million in 2014 to RMB28,422 million in 2015. The increase mainly reflected: (1) greater sharing and content costs (especially for licensed smart phone games) and channel costs; (2) the impact of the aforementioned adoption of gross revenue recognition; and (3) higher bandwidth and server custody fees. If gross revenue recognition for smart phone games had been adopted for the year ended 31 December of 2014, cost of revenues for our VAS business would have increased by 27%. As a percentage of revenues generated from the same segment, cost of revenues increased from 33% in 2014 to 35% in 2015.

Cost of revenues for online advertising increased by RMB4,281 million, or 92%, from RMB4,660 million in 2014 to RMB8,941 million in 2015. The increase primarily reflected greater traffic acquisition costs, investment in video content, as well as commissions payable to advertising agencies. As a percentage of revenues generated from the same segment, cost of revenues decreased from 56% in 2014 to 51% in 2015.

Cost of revenues for others, including eCommerce, decreased by RMB1,326 million, or 24%, from RMB5,594 million in 2014 to RMB4,268 million in 2015. The decrease was mainly driven by a decline in cost of merchandise sold due to lower revenues from principal eCommerce transactions, partly offset by greater bank handling fees on C2C money transfers.

Gross profit. Gross profit increased by RMB13,173 million, or 27%, from RMB48,059 million in 2014 to RMB61,232 million in 2015. Our gross margin was 60% in 2015 as compared to 61% in 2014.

Interest income. Interest income increased by RMB651 million, or 39%, from RMB1,676 million in 2014 to RMB2,327 million in 2015.

Other gains, net. We recorded other net gains, totalling RMB1,886 million in 2015, compared to other gains, net of RMB2,759 million in 2014. The decrease mainly reflected a decline in net disposal/deemed disposal gains arising from certain investee companies, partly offset by fair value gains on options we own in an investee company, which we recognised in the fourth quarter of 2015.

Selling and marketing expenses. Selling and marketing expenses increased by RMB196 million, or 3%, from RMB7,797 million in 2014 to RMB7,993 million in 2015. The increase mainly reflected greater staff costs, partly offset by lower fulfillment expenses due to a decrease in revenues from principal eCommerce transactions. Promotion and advertising expenses were broadly stable, primarily reflecting higher marketing spending on products and platforms such as online games, online literature and mobile utilities, largely offset by reduced subsidies to *Weixin Pay* users for ride-hailing and decreased marketing expenses for *WeChat*. As a percentage of revenues, selling and marketing expenses decreased to 8% for the year ended 31 December 2015 from 10% for the year ended 31 December 2014.

General and administrative expenses. General and administrative expenses increased by RMB2,670 million, or 19%, from RMB14,155 million in 2014 to RMB16,825 million in 2015. The increase was primarily driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased from 18% in 2014 to 16% in 2015.

Operating profit. Operating profit increased by RMB10,085 million, or 33%, from RMB30,542 million in 2014 to RMB40,627 million in 2015.

Finance costs, net. We recorded finance costs, net of RMB1,618million in 2015 compared to finance costs, net of RMB1,182 million in 2014. The increase mainly reflected greater interest expenses due to higher amount of indebtedness.

Profit before income tax. Profit before income tax increased by RMB7,203 million, or 25%, from RMB29,013 million in 2014 to RMB36,216 million in 2015.

Income tax expense. Income tax expense increased by RMB1,983 million, or 39%, from RMB5,125 million in 2014 to RMB7,108 million in 2015. The increase primarily reflected higher profit before income tax, partially offset by a decrease in withholding taxes.

Profit for the year. As a result of the factors discussed above, profit for the year increased by RMB5,220 million, or 22%, from RMB23,888 million in 2014 to RMB29,108 million in 2015. Our profit margin decreased from 30% in 2014 to 28% in 2015.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by RMB4,996 million, or 21%, from RMB23,810 million for the year ended 31 December 2014 to RMB28,806 million for the year ended 31 December 2015.

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 (unaudited)							
	31 December 2015	**31 March 2016**	**30 June 2016**	**30 September 2016**	**31 December 2016**	**31 March 2017**	**30 June 2017**	**30 September 2017**
	(RMB in millions)							
Revenues:								
VAS	23,068	24,964	25,680	27,975	29,191	35,108	36,804	42,124
Online advertising	5,733	4,701	6,532	7,449	8,288	6,888	10,148	11,042
Others	1,640	2,330	3,479	4,964	6,385	7,556	9,654	12,044
Total revenues	**30,441**	**31,995**	**35,691**	**40,388**	**43,864**	**49,552**	**56,606**	**65,210**
Cost of revenues	(12,661)	(13,406)	(15,235)	(18,560)	(20,238)	(24,109)	(28,300)	(33,529)
Gross profit	**17,780**	**18,589**	**20,456**	**21,828**	**23,626**	**25,443**	**28,306**	**31,681**
Interest income	649	703	626	637	653	808	959	1,017
Other gains, net	249	506	911	1,155	1,022	3,191	5,125	3,918
Selling and marketing expenses	(3,024)	(2,032)	(2,365)	(3,277)	(4,462)	(3,158)	(3,660)	(4,812)
General and administrative expenses	(4,766)	(4,368)	(5,299)	(5,883)	(6,909)	(7,012)	(8,170)	(9,058)
Operating profit	**10,888**	**13,398**	**14,329**	**14,460**	**13,930**	**19,272**	**22,560**	**22,746**
Finance costs, net	(363)	(491)	(377)	(604)	(483)	(691)	(834)	(524)
Share of (losses)/profits of associates and joint ventures	(1,329)	(1,089)	(292)	(619)	(522)	(375)	498	818
Profit before income tax	**9,196**	**11,818**	**13,660**	**13,237**	**12,925**	**18,206**	**22,224**	**23,040**
Income tax expense	(1,998)	(2,550)	(2,780)	(2,461)	(2,402)	(3,658)	(3,970)	(4,993)
Profit for the period	**7,198**	**9,268**	**10,880**	**10,776**	**10,523**	**14,548**	**18,254**	**18,047**

We experienced growth in our quarterly revenues for the eight quarters in the period from 31 December 2015 to 30 September 2017. 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*, *Weixin/WeChat*, as well as growth in social networks business, including our media and digital content platforms. 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.

We had cash and cash equivalents of RMB42,713 million, RMB43,438 million, RMB71,902 million and RMB87,343 million (US$13,128 million) as at 31 December 2014, 2015 and 2016 and 30 September 2017, respectively. Our term deposits and others included in current and non-current assets were RMB15,629 million, RMB41,005 million, RMB55,735 million and RMB62,735 million (US$9,429 million) as at 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, respectively.

We bill and collect revenues for our value-added services principally through these prepaid channels: mobile payment solutions (*Weixin Pay*, *QQ Wallet and app stores*), online banking and our *e-sales system*. A majority of our revenues from value-added services are prepaid, allowing us to minimise our credit risk.

Our accounts receivable were RMB4,588 million, RMB7,061 million, RMB10,152 million and RMB15,567 million (US$2,340 million) as at 31 December 2014, 2015 and 2016 and 30 September 2017, respectively which mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators. Some online advertising customers and agencies are granted with a credit period of 90 days after full execution of the contracted advertisement orders. Third party platform providers and telecommunication operators usually settle the amounts due by them within 60 days and a period of 30 to 120 days, respectively.

Our accounts payable were RMB8,683 million, RMB15,700 million, RMB27,413 million and RMB41,850 million (US$6,290 million) as at 31 December 2014, 2015 and 2016 and 30 September 2017, 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 2014, 2015 and 2016 and for the nine months ended 30 September 2016 and 2017:

	Year ended 31 December			Nine months ended 30 September		
	2014	**2015**	**2016**	**2016**	**2017**	
	(Audited)	**(Audited)**	**(Audited)**	**(Unaudited)**	**(Unaudited)**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Net cash flows generated from operating activities	32,711	45,431	65,518	45,518	77,546	11,655
Net cash flows used in investing activities[1]	(28,388)	(63,605)	(70,923)	(56,169)	(79,089)	(11,887)
Net cash flows generated from financing activities[2]	18,350	18,528	31,443	18,552	19,023	2,859
Net increase in cash and cash equivalents	22,673	354	26,038	7,901	17,480	2,627
Cash and cash equivalents at beginning of year/period	20,228	42,713	43,438	43,438	71,902	10,807
Exchange (losses)/gains on cash and cash equivalents	(188)	371	2,426	1,078	(2,039)	(306)
Cash and cash equivalents at end of year/period	42,713	43,438	71,902	52,417	87,343	13,128

Note:

(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 property, plant and equipment, construction in progress and investment properties, payments for land use rights and payments for intangible assets (excluding media contents, games licences and other contents), which amounted to RMB4,752 million, RMB8,877 million, RMB10,566 million, RMB7,722 million and RMB8,344 million (US$1,254 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

(2) Includes, among others, dividends paid to the Company's shareholders and non-controlling interest owners, which amounted to RMB1,919 million, RMB3,189 million, RMB4,606 million, RMB4,606 million and RMB5,837 million (US$877 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2016 and 2017, respectively.

Cash Flows from Operating Activities

For the nine months ended 30 September 2017, we had a net cash inflow from operating activities in the amount of RMB77,546 million (US$11,655 million). This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB70,818 million and changes in working capital in the amount of RMB17,801 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB11,073 million. The changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB4,393 million, (ii) an increase in deferred revenue of RMB11,805 million, (iii) an increase in accounts payable of RMB9,954 million, and (iv) an increase in other tax liabilities of RMB502 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB3,374 million, (ii) an increase in accounts receivable of RMB5,423 million, and (iii) an increase in inventories of RMB56 million.

In 2016, we had a net cash flow from operating activities in the amount of RMB65,518 million. This was primarily a result of cash flows generated from operation before changes in working capital in the amount of RMB65,067 million and changes in working capital in the amount of RMB10,967 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB10,516 million. The changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB2,506 million, (ii) an increase in deferred revenue of RMB8,428 million, (iii) an increase in accounts payable of RMB7,060 million, and (iv) an increase in other tax liabilities of RMB49 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB4,108 million, (ii) an increase in accounts receivable of RMB2,930 million, and (iii) an increase in inventories of RMB38 million.

In 2015, we had a net cash flow from operating activities in the amount of RMB45,431 million. This was primarily a result of cash flows generated from operation before changes in working capital in the amount of RMB44,089 million and changes in working capital in the amount of RMB6,389 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB 5,047 million. The changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB3,654 million, (ii) an increase in deferred revenue of RMB4,439 million, and (iii) an increase in accounts payable of RMB5,969 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB5,081 million, (ii) an increase in accounts receivable of RMB2,469 million, (iii) a decrease in other tax liabilities of RMB106 million, and (iv) an increase in inventories of RMB17 million.

In 2014, we had a net cash flow from operating activities in the amount of RMB32,711 million. This was primarily a result of cash flows generated from operation before changes in working capital in the amount of RMB31,858 million and changes in working capital in the amount of RMB5,556 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB4,703 million. The changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB2,975million, (ii) an increase in deferred revenue of RMB2,687 million, (iii) an increase in accounts payable of RMB1,788 million, and (iv) a decrease in inventories of RMB1,300 million, partially offset by (i) an increase in prepayments, deposits and other receivables of RMB1,751 million, (ii) an increase in accounts receivable of RMB1,418 million, and (iii) a decrease in other tax liabilities of RMB25 million.

Cash Flows used in Investing Activities

Net cash used in investing activities for the nine months ended 30 September 2017 was RMB79,089 million (US$11,887 million), primarily reflecting payment for acquisition of investment in associates of RMB9,621 million, the acquisition of investments in redeemable instruments of associates in the amount of RMB14,438 million, and payments for available-for-sale financial assets of RMB32,896 million and purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB7,868 million, purchase or prepayment of intangible assets in amount of RMB13,569 million, and net placement flow of term deposits with initial term of over three months in the amount of RMB7,000 million, partially offset by proceeds from disposals of available-for-sale financial assets in the amount of RMB3,331 million, interest received of RMB2,547 million, and dividends received of RMB1,102 million.

Net cash used in investing activities for the year ended 31 December 2016 was RMB70,923 million, primarily reflecting the payments for acquisition of investments in associates in the amount of RMB8,934 million and payments for acquisition of investments in redeemable instruments of associates in the amount of RMB3,324 million, payments of available-for-sale financial assets and related derivative financial instruments in amount of RMB33,556 million, and purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB8,399 million, purchase or prepayment of intangible assets in the amount of RMB8,849 million, net placement flow of term deposits with initial term of over three months in the amount of RMB14,730 million, partially offset by proceeds from settlement of loan to investees and other receipts related to investees of RMB 4,046 million and interest received of RMB1,718 million.

Net cash used in investing activities for the year ended 31 December 2015 was RMB63,605 million, primarily reflecting the payment for acquisition of investments in associates in the amount of RMB11,423 million and payment for acquisition of investments in redeemable preference shares of associates in the amount of RMB2,394 million, payments for available-for-sale financial assets of RMB13,001 million and purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB5,440 million, purchase or prepayment of intangible assets in amount of RMB4,620 million, net placement flow of term deposits with initial term of over three months in the amount of RMB25,376 million, partially offset by interest received of RMB 2,274 million.

Net cash used in investing activities for the year ended 31 December 2014 was RMB28,388 million, primarily reflecting the payments for acquisition of investments in associates in the amount of RMB31,929 million and payments for acquisition of investments in redeemable preference shares of associates in the amount of RMB2,524 million, purchase of available-for-sale financial assets of RMB4,622 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB4,296 million, and purchase or prepayment of intangible assets in the amount of RMB2,320 million, partially offset by net receipt flow of term deposits with initial term of over three months in the amount of RMB15,444 million and interest received of RMB1,468 million.

Net Cash Flows generated from Financing Activities

Net cash generated from financing activities for the nine months ended 30 September 2017 was RMB19,023 million (US$2,859 million), primarily reflecting proceeds from long-term borrowings of RMB31,537 million and proceeds from short-term borrowings of RMB16,676 million, partially offset by dividend paid to the Company's shareholders and the non-controlling interests of RMB5,837 million, repayment of short-term borrowings of RMB12,435 million, repayment of long-term borrowings of RMB5,281 million and repayment of notes payable of RMB3,450 million.

Net cash generated from financing activities for the year ended 31 December 2016 was RMB31,443 million, proceeds from long-term borrowings of RMB55,394 million and proceeds from short-term borrowings of RMB2,387 million, partially offset by dividend paid to the Company's shareholders and the non-controlling interests of RMB4,606 million, repayment of long-term borrowings of RMB13,957 million and repayment of notes payable of RMB4,132 million.

Net cash generated from financing activities for the year ended 31 December 2015 was RMB18,528 million, primarily reflecting net proceeds from issuance of long-term notes of RMB13,619 million, proceeds from long-term borrowings of RMB8,581 million and proceeds from short-term borrowings of RMB8,565 million, partially offset by payments for acquisition of non-controlling interests in non-wholly owned subsidiaries of RMB4,547 million, dividend paid to the Company's shareholders and the non-controlling interests of RMB3,189 million and repayment of long-term borrowings of RMB2,200 million.

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

Capital Expenditure

Our capital expenditures consisted of additions (excluding business combinations) to property, plant and equipment which primarily include, computers and servers, construction in progress investment properties, land use rights and intangible assets (excluding media contents, game licences and other contents), were RMB4,718 million, RMB7,709 million, RMB12,100 million and RMB8,610 million (US$1,294 million) for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, 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 RMB8,722 million, RMB24,351 million, RMB69,827 million and RMB97,290 million (US$14,623 million) as at 31 December 2014, 2015 and 2016 and 30 September 2017, respectively.

Our total notes payable amounted to RMB26,862 million, RMB40,978 million, RMB39,670 million and RMB34,645 million (US$5,207 million) as at 31 December 2014, 2015 and 2016 and 30 September 2017, respectively. 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 — 2018 Notes*". On 29 April 2014, we 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 — 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 arrears 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 — January 2020 Notes*". On 21 October 2014, we completed the issue of the April 2020 Notes. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014, payable annually in arrears on 21 October of each year. The April 2020 Notes will mature on 21 April 2020. See "*Description of Other Material Indebtedness — April 2020 Notes*". On 11 February 2015, we completed the issue of the February 2020 Notes. The February 2020 Notes bear an interest of 2.875% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The February 2020 Notes will mature on 11 February 2020. See "*Description of Other Material Indebtedness — February 2020 Notes and 2025 Notes*". On 11 February 2015, we completed the issue of the 2025 Notes. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes will mature on 11 February 2025. See "*Description of Other Material Indebtedness — February 2020 Notes and 2025 Notes*". On 15 July 2015, we completed the issue of the 2035 Notes. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes will mature on 15 July 2035. See "*Description of Other Material Indebtedness — 2035 Notes*". On 24 September 2015, we completed the issue of the September 2018 Notes. The September 2018 Notes bear an interest of 2.300% per annum from 24 September 2015, payable quarterly in arrears on 24 March, 24 June, 24 September and 24 December of each year. The September 2018 Notes will mature on 24 September 2018. See "*Description of Other Material Indebtedness — September 2018 Notes*".

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

	As at 31 December			As at 30 September	
	2014	2015	2016	2017	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Current:					
RMB bank borrowings					
— unsecured[(1)]	125	—	—	15	2
Current portion of long-term RMB bank borrowings					
— unsecured[(2)]	—	—	—	30	5
HKD bank borrowings					
— unsecured[(1)]	—	—	—	14,535	2,185
USD bank borrowings					
— unsecured[(1)]	1,836	10,715	12,139	1,327	199
Current portion of long-term USD bank borrowings					
— unsecured	1,254	714	139	—	—
	3,215	**11,429**	**12,278**	**15,907**	**2,391**
Non-current:					
RMB bank borrowings					
Non-current portion of long-term RMB bank borrowings					
— unsecured[(2)]	—	—	—	4,459	670
— secured[(2)]	—	—	—	475	71
HKD bank borrowings					
Non-current portion of long-term HKD bank borrowings					
— unsecured[(2)]	—	—	—	848	128
USD bank borrowings					
Non-current portion of long-term USD bank borrowings					
— unsecured[(2)]	5,507	12,922	57,549	75,601	11,363
	5,507	**12,922**	**57,549**	**81,383**	**12,232**
Total borrowings	**8,722**	**24,351**	**69,827**	**97,290**	**14,623**
Current:					
Notes payable[(3)]	1,834	3,886	3,466	4,826	725
Non-current:					
Notes payable[(4)]	25,028	37,092	36,204	29,819	4,482
Total notes payable	**26,862**	**40,978**	**39,670**	**34,645**	**5,207**
Total	**35,584**	**65,329**	**109,497**	**131,935**	**19,830**

Note:

(1) The aggregate principal amounts of short-term USD bank borrowings, short-term HKD bank borrowings and short-term RMB bank borrowings as at 30 September 2017, were US$200 million, HK$17,133 million and RMB15 million, respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.50% to 0.55% for non- RMB bank borrowings and a fixed interest rate of 5.655% for RMB bank borrowings per annum.

(2) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings as at 30 September 2017, were US$11,391 million, RMB4,964 million and HK$1,000 million, respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.70% to 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and fixed interest rates of 4.18% to 4.275% for RMB bank borrowings per annum.

(3) On 10 September 2013, we issued the 2015 Notes in an aggregate principal amount of US$300 million. The 2015 Notes matured and were fully paid on 10 September 2015.

(4) On 12 December 2011, we issued the 2016 Notes in an aggregate principal amount of US$600 million that matured on 12 December 2016. 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 matured on 2 May 2017. 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 interest at 3.200% per annum from 16 May 2014, payable quarterly in arrears on 10 July, 10 October, 10 January and 10 April of each year. The January 2020 Notes were issued at 100.0% of the aggregate principal amount. On 21 October 2014, we completed the issue of the April 2020 Notes in an aggregate principal amount of HK$1,200 million that will mature on 21 April 2020. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014, payable annually in arrears on 21 October of each year. The April 2020 Notes were issued at 100.0% of the aggregate principal amount. On 11 February 2015, we completed the issue of the February 2020 Notes that will mature on 11 February 2020. The February 2020 Notes bear an interest of 2.875% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The February 2020 Notes were issued at 99.797% of the aggregate principal amount. On 11 February 2015, we completed the issue of the 2025 Notes that will mature on 11 February 2025. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes were issued at 99.605% of the aggregate principal amount. On 15 July 2015, we completed the issue of the 2035 Notes that will mature on 15 July 2035. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes were issued at 99.359% of the aggregate principal amount. On 24 September 2015, we issued the September

2018 Notes in an aggregate principal amount of HK$1,000 million that will mature on 24 September 2018. The September 2018 Notes bear an interest of 2.300% per annum, payable quarterly in arrears on 24 March, 24 June, 24 September and 24 December of each year. The September 2018 Notes were issued at 100.0% of the aggregate principal amount.

CONTRACTUAL OBLIGATIONS

Capital Commitments

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

	As at 31 December			As at 30 September	
	2014	**2015**	**2016**	**2017**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:					
Construction/purchase of buildings and purchase of land use rights	2,496	2,239	1,911	1,373	206
Purchase of other property, plant and equipment	494	631	44	128	19
Capital investment in investees	912	2,249	2,866	2,321	349
Total	**3,902**	**5,119**	**4,821**	**3,822**	**574**

Operating Lease Commitments

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

	As at 31 December			As at 30 September	
	2014	**2015**	**2016**	**2017**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:					
Not later than one year	746	428	302	241	36
Later than one year and not later than five years	1,347	827	632	532	80
Later than five years	1,200	1,198	1,156	1,015	153
Total	**3,293**	**2,453**	**2,090**	**1,788**	**269**

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 at the dates indicated:

	As at 31 December			As at 30 September	
	2014	2015	2016	2017	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(RMB in millions)*	*(US$ in millions)*
Contracted:					
Not later than one year	1,778	2,090	3,404	6,880	1,034
Later than one year and not later than five years	1,566	3,363	4,081	8,744	1,314
Later than five years	5	540	1,540	2,445	367
Total	**3,349**	**5,993**	**9,025**	**18,069**	**2,715**

Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as at 30 September 2017.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Interest Rate Risk

Our income and operating cash flows are substantially independent from changes in market interest rates and we have no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents. Our exposure to changes in interest rates is primarily attributable to our borrowings and notes payable, which represent a substantial portion of our debts. Borrowings and notes payable carried at floating rates expose us to cash flow interest-rate risk whereas those carried at fixed rates expose us to fair value interest-rate risk. We regularly monitor our interest rate risk to identify if there are any undue exposures to significant interest rate movements and manages our cash flow interest rate risk by using interest rate swaps, whenever considered necessary.

During the year ended 31 December 2016, we entered into certain interest rate swap contracts to hedge our exposure arising from our borrowings carried at floating rates. Under these interest rate swap contracts, we agreed with the counterparties to exchange, at specific intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to agreed notional amounts. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates and were qualified as hedge accounting.

Price Risk

We are exposed to price risk because of our investments which are classified as available-for-sale financial assets. These investments were made either for strategic purpose, or for purpose of achieving investment yield, and balancing the liquidity level simultaneously. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by our senior management, on a case by case basis.

Credit Risk

We are exposed to credit risk in relation to our cash and deposits placed with banks and financial institutions, other debt 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 reputable international financial institutions outside of the PRC. There was no recent history of default in relation to these financial institutions.

We have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties.

Our online advertising that are sales to/through advertising agencies or directly to the advertisers are made at term of full advances, partial advances or sales on credit according to our credit policies. The credit period granted to the customers is usually not more than 90 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors. Provisions are made for past due balances when management considers the loss from the customers is likely. Our historical experience in collection of receivables falls within the recorded allowances.

Our revenues from VAS are generally paid by end users by way of online payment channels or utilising the prepaid cards and tokens issued and sold by us, whereas the revenue from VAS delivered to the end users through third party platforms were collected by these third party platform providers and remitted to us under a credit period of 30 to 120 days. In addition, we also sold prepaid credits through various channels such as sales agents, telecommunication operators, third party platform providers and Internet cafes, and others. Apart from a credit period of 30 days to 120 days granted to telecommunication operators and third party platform providers, full advances were required from other channels.

In view of the history of co-operation with these third party platform providers and telecommunication operators, and the sound financial position and collection history of receivables due from these counterparties, we believe that the credit risk inherent in our outstanding receivable balances from these counterparties is low.

Foreign Exchange Risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD, USD and Euro. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. Our functional currency of the Company and majority of our overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and try to minimise these exposures through natural hedges, wherever possible, and may enter into forward exchange contracts, when necessary.

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.