Tencent 腾讯

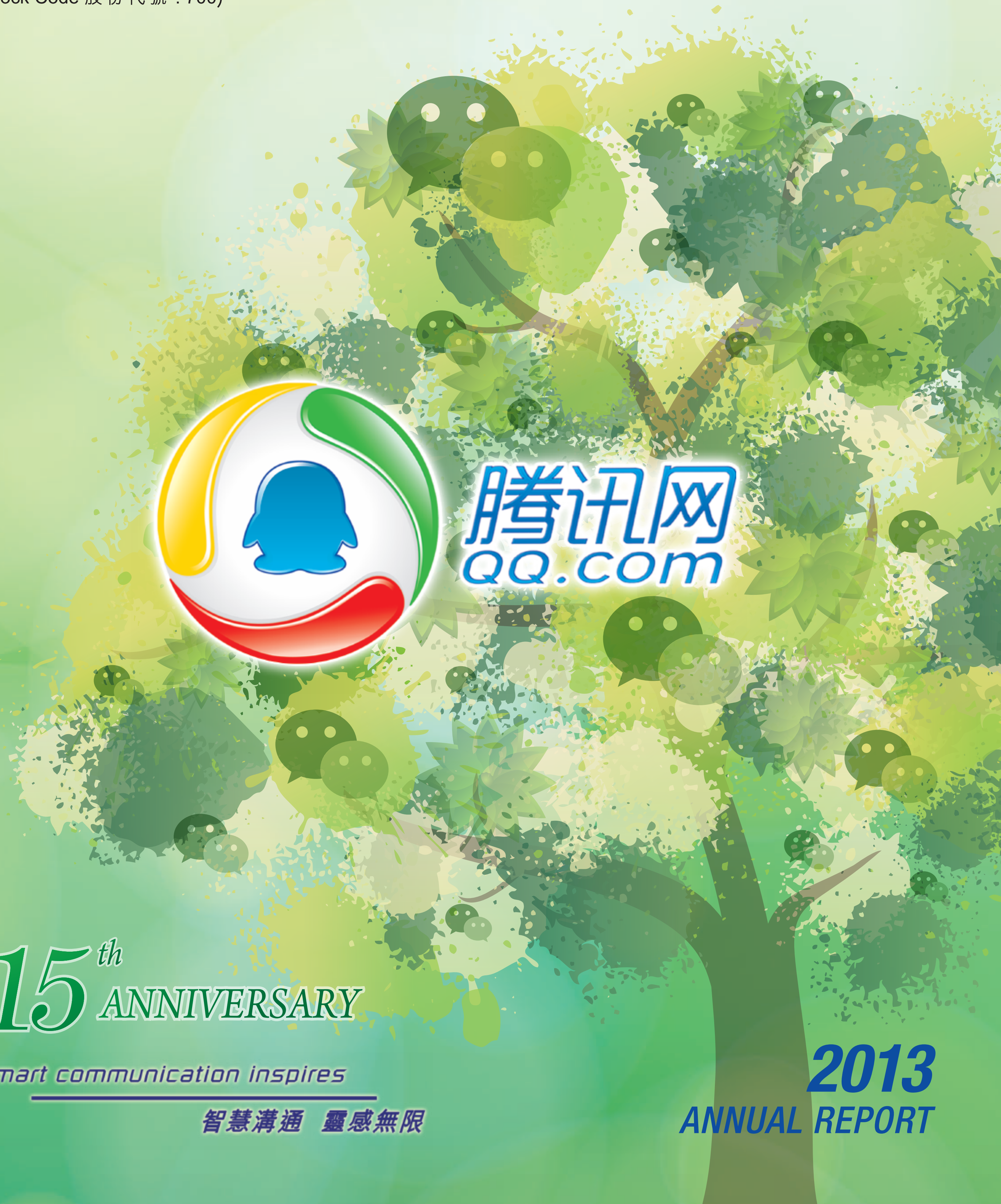
Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號：700)



15th ANNIVERSARY

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智慧溝通 靈感無限

2013 ANNUAL REPORT

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Corporate Information

DIRECTORS

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong
(resigned with effect from
20 March 2014)

Non-Executive Directors

Jacobus Petrus Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

AUDIT COMMITTEE

Iain Ferguson Bruce *(Chairman)*
Ian Charles Stone
Charles St Leger Searle

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle *(Chairman)*
Iain Ferguson Bruce
Ian Charles Stone

INVESTMENT COMMITTEE

Lau Chi Ping Martin *(Chairman)*
Ma Huateng
Zhang Zhidong
(resigned with effect from
20 March 2014)
Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng *(Chairman)*
Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone
Charles St Leger Searle

REMUNERATION COMMITTEE

Ian Charles Stone *(Chairman)*
Li Dong Sheng
Jacobus Petrus Bekker

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

TENCENT GROUP HEAD OFFICE

Tencent Building
Kejizhongyi Avenue
Hi-tech Park
Nanshan District
Shenzhen, 518057
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29/F., Three Pacific Place
No. 1 Queen's Road East
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

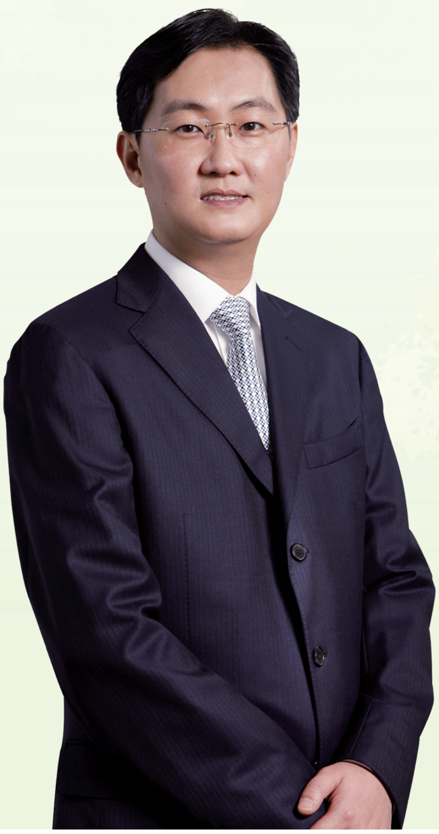
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2009 RMB'Million	2010 RMB'Million	2011 RMB'Million	2012 RMB'Million	**2013 RMB'Million**
Revenues	12,440	19,646	28,496	43,894	**60,437**
Gross profit	8,550	13,326	18,568	25,687	**32,659**
Profit before income tax	6,041	9,913	12,099	15,051	**19,281**
Profit for the year	5,222	8,115	10,225	12,785	**15,563**
Profit attributable to equity holders of the Company	5,156	8,054	10,203	12,732	**15,502**
Total comprehensive income for the year	5,222	9,936	8,957	13,619	**18,376**
Total comprehensive income attributable to equity holders of the Company	5,156	9,875	8,938	13,567	**18,327**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2009 RMB'Million	2010 RMB'Million	2011 RMB'Million	2012 RMB'Million	**2013 RMB'Million**
Assets					
Non-current assets	4,349	10,456	21,301	38,747	**53,549**
Current assets	13,157	25,374	35,503	36,509	**53,686**
Total assets	17,506	35,830	56,804	75,256	**107,235**
Equity and liabilities					
Equity attributable to the Company's equity holders	12,179	21,757	28,463	41,298	**57,945**
Non-controlling interests	120	84	625	850	**518**
Total equity	12,299	21,841	29,088	42,148	**58,463**
Non-current liabilities	644	967	6,533	12,443	**15,505**
Current liabilities	4,563	13,022	21,183	20,665	**33,267**
Total liabilities	5,207	13,989	27,716	33,108	**48,772**
Total equity and liabilities	17,506	35,830	56,804	75,256	**107,235**

Chairman's Statement



Ma Huateng
Chairman

I am pleased to present our annual report for the year ended 31 December 2013 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2013 was RMB15,502 million, an increase of 22% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2013 were RMB8.464 and RMB8.298 respectively.

BUSINESS REVIEW AND OUTLOOK

In 2013, the mobile Internet proliferated further and integrated more deeply with users' daily lives in China. The year saw a significant shift in users' traffic from PC to mobile devices, driving substantial changes across different sectors of the Internet industry, including communications, social networking, online games, online media and eCommerce. Mobile applications took the center stage and became the mainstream for many Internet services, reshuffling the competitive landscape.

Market competition intensified as competitors aligned their strategies with the mobile opportunities and made aggressive organic and inorganic investments along the value chain. Although business models on the mobile Internet are still evolving, we saw significant development and clearer paths towards mobile monetisation during the year. In particular, mobile games gained traction and experienced rapid growth in user adoption and spending, capitalising on the network effects of mobile social platforms. Performance-based mobile advertising also showed early signs of adoption. New services, such as O2O services, emerged as mobile platforms achieved critical mass and mobile payment became more widely adopted in China.

Overall Financial Performance

In 2013, we registered solid growth in revenues and profits in a dynamic and competitive marketplace, while strengthening our leadership on the mobile Internet and continuing to invest in emerging opportunities such as O2O services, online video, and international expansion.

- *VAS.* Our online game business achieved healthy growth in revenues, thanks to the strong performance of our major PC game titles in China and LoL in international markets, and the launch of new PC game titles. Our social network revenues grew as the increase in item-based sales within applications on our open platforms offset weakness in subscription services. Revenues from our online games and social networks also benefited from the initial contributions from smart phone games integrated with Mobile QQ and Weixin.
- *Online advertising.* Our online advertising business benefited from the significant growth in performance-based social advertising and online video advertising, as well as solid growth in traditional brand advertising. Search advertising revenues declined as we transferred our search business to Sogou, an associate of the Group, in September 2013.
- *eCommerce transactions.* We achieved significant growth in principal eCommerce transactions revenues under a highly competitive market environment as we expanded our category and geographic coverage. Fees generated from transactions on our marketplaces also increased.

In the fourth quarter of 2013, revenues and profits continued to grow compared to the same period last year.

- *VAS.* Our online game business registered healthy growth, riding on increased popularity of our major PC game titles in China and LoL in international markets, as well as new PC game titles. The business also benefited from new contributions from smart phone games integrated with Mobile QQ and Weixin. Our social networks benefited from growth in item-based sales within applications on our open platforms and new contributions from platform revenues related to smart phone games integrated with Mobile QQ and Weixin, partly offset by a decline in subscription revenues.

- *Online advertising.* The year-on-year revenue growth of our online advertising business accelerated in the fourth quarter versus the previous quarter, mainly driven by the strong increase in revenues from online video advertising. Performance-based social advertising continued to achieve significant revenue growth, while traditional brand advertising also increased. Search advertising revenues declined as we transferred our search business to Sogou in September 2013.

- *eCommerce transactions.* In the fourth quarter of 2013, we achieved significant year-on-year growth in revenues from principal eCommerce transactions. Fees generated from transactions on our marketplaces also increased.

Strategic Highlights

In 2013, we accelerated the mobilisation of our services and reinforced our leadership in mobile applications in China. Building on our strengths in communications and social platforms on mobile devices, we expanded the user base of various mobile applications, such as news, music and utilities, and launched new services on our core mobile platforms, such as Game Center and Weixin Payment, which enhanced user engagement, while opening up monetisation opportunities. We also extended our leadership in online games and open platforms, while expanding our online advertising business and our eCommerce transactions business.

We forged landmark transactions to further develop our search and eCommerce businesses. In September 2013, we announced a strategic partnership with Sogou for our search business, under which we invested in Sogou and merged our SoSo search-related businesses and certain other assets with Sogou. In March 2014, we announced a strategic partnership with JD.com for our eCommerce business, under which we invested in JD.com and merged our relevant eCommerce initiatives with JD.com. In addition to these two transactions which involve transfer of some of our businesses to our partners, we entered into other strategic transactions with partners including CSC, Dianping and Dididache. The strategic transactions with Sogou, JD.com and other partners entail close cooperation at both an investor and a business level, and reinforce our "open, win-win" philosophy of working with leading teams to create innovative products for users, and to build a healthy, diversified ecosystem for the Internet industry. These transactions also free up our internal resources, both human and financial, to focus on leveraging the core strengths of our platforms and to develop new products such as O2O services, while enabling us to continue benefiting from the growth potential of the underlying industries via our significant equity stakes.

Divisional and Product Highlights

Key Platforms

In 2013, QQ and Qzone maintained their leading positions in communications and social networking in China. User account growth decelerated as users continued to shift their traffic from PC to mobile devices because fewer mobile users than PC users employ multiple accounts and mobile users' usage pattern is more spread out across day parts as compared to PC users. For QQ, aggregate MAU increased modestly by 1% year-on-year to 808 million at the end of 2013, while PCU increased by 2% year-on-year to 180 million. During the year, we significantly expanded the mobile user base of QQ with enhanced user experience and enriched services such as Game Center. At the end of 2013, smart device MAU[1] of QQ increased by 74% year-on-year to 426 million. For Qzone, aggregate MAU increased by 4% year-on-year to 625 million at the end of 2013. The year saw increased user activity and engagement on mobile. This was evidenced by a significant growth in smart device MAU of Qzone, which increased by 63% year-on-year to 416 million at the end of 2013, as well as a substantial increase in photo uploads on Mobile Qzone.

Combined MAU of Weixin and WeChat reached 355 million at the end of 2013. During the year, Weixin enjoyed rapid expansion and enhanced user engagement in China. With the launch of new services, such as Game Center, Official Accounts and Weixin Payment, as well as the increasing adoption of Moments, Weixin is evolving from a pure communications service into a multi-functional platform. In international markets, WeChat achieved robust aggregate user growth, but we are increasingly focused on driving engagement in specific target geographic regions. Looking ahead, we aim to further improve user engagement on Weixin and WeChat by enhancing the core communications and social functions. We will also leverage Official Accounts and Weixin Payment to explore O2O and mobile eCommerce opportunities in China.

For our core media platforms, QQ.com, Tencent Microblog and Tencent Video, we sought to upgrade our content and enhance user experience, especially on mobile devices. For example, Tencent News achieved significant user growth during the year via mobile applications and plug-ins on Mobile QQ and Weixin. Going forward, we will further develop our portfolio of mobile media applications and enhance the monetisation of our mobile media traffic. We will also invest more aggressively in video content to further expand Tencent Video's market presence, as we believe the online video industry is still at a formative stage and our massive media traffic provides us with competitive advantage.

VAS

In 2013, our open platforms continued to create value for the Internet industry, and enjoyed significant growth in users and revenues as a result. We believe we have become the partner of choice for application developers in China, offering access to our large logged-in user base, the network effect of our leading social platforms, our targeted advertising solutions, and our proprietary cloud-based infrastructure support. We are extending our open platforms to mobile and targeting to build a cross-platform ecosystem.

1 Since the fourth quarter of 2013, smart device MAU of QQ has been revised to denote the total number of QQ MAU that sent out one or more messages via Mobile QQ application on iOS or Android devices, or conducted other proactive operations via Mobile QQ application on iOS or Android devices, such as logging into Game Center or updating Qzone, at least once during the last calendar month prior to the relevant date. Comparative figures have been restated to conform to the current period's presentation.

The weakness in our VAS subscription services continued in 2013. This was primarily due to rapid adoption of smart phones by users, whereas our paid subscription services are traditionally focused on PC or feature phones. The weakness was also driven by our stringent measures to clean up certain user accounts acquired through mobile channels with low possibility of fee collection. To better align our VAS subscription services with the mobile Internet opportunities, we unified the product teams and product experiences between PC and smart phones, and introduced smart phone-oriented subscription services, such as Super VIP, during the year.

For online games, we consolidated our leading position in China in 2013. While major domestic PC game titles continued to deliver solid growth, we benefited significantly from increased contribution from international markets via LoL, and from the launch of new domestic PC game titles. In the fast-growing mobile game market, we launched our Game Center on Mobile QQ and Weixin, including a range of self-developed and third-party smart phone games. Riding on the extensive user reach and social network effect offered by Mobile QQ and Weixin, these games generated a revenue contribution of over RMB600 million for the fourth quarter of 2013, validating the distribution capabilities of our mobile platforms. We will continue to enrich our game portfolios for PC and mobile. In addition, we will strengthen our mobile distribution platforms to complement the rapid growth of our mobile games.

Online Advertising

Leveraging the growth of our media platforms and social platforms, our online advertising business expanded further in 2013, with revenue growth across the brand display and performance display categories. For brand display advertising, revenues from our online video platform achieved strong growth, driven by increased inventories, improved pricing and enhanced recognition from advertisers. Traditional brand advertising also registered solid revenue growth. For performance display advertising, revenues from our social platforms benefited from growth in impression volume and improved targeting. For search advertising, revenues declined as we transferred our search business to Sogou in September 2013. We believe Sogou is well-positioned to grow its share in the PC and mobile search market after the completion of its integration with SoSo towards the end of 2013.

Longer term, we believe the fast-growing user base and traffic of our mobile platforms will increasingly become an attractive proposition for advertisers. We are exploring different formats of mobile advertising on our platforms to capture the emerging opportunities.

eCommerce Transactions

In 2013, our principal eCommerce transactions business experienced strong growth in transaction volume and revenues as we enhanced our geographic presence, expanded our product range and improved our eCommerce infrastructure. Our marketplaces also registered growth in fee income as we improved product selection and customer service.

Under our strategic partnership with JD.com, we transferred our Wanggou B2C and Paipai C2C marketplace businesses, logistics personnel and assets, as well as a minority stake in Yixun to JD.com, and JD.com has a call option to acquire our remaining stake in Yixun in future. We will support JD.com's growth in the physical goods eCommerce business by offering level 1 access points at Mobile QQ and Weixin, as well as support from other key platforms to JD.com. Both parties will also cooperate on online payment services to improve users' online shopping experience.

Outlook and strategies for 2014

During 2014, we intend to leverage our leading communications and social applications to: (1) support a broad portfolio of associated applications spanning activities such as games, entertainment, information, and utilities; (2) popularise our application stores and application distribution platforms; and (3) build a prosperous ecosystem for O2O and mobile eCommerce activities. We also strive to leverage our platforms to accelerate the growth of mobile games, while reinforcing our leadership in PC client games.

We will continue investing heavily in certain long-term projects we deem strategic, including: (1) purchasing content and improving user experience for our online video service; (2) marketing and popularising our WeChat service in selected international markets; and (3) encouraging uptake of our payment solutions, for example via subsidies to consumers and merchants.

We aim to deepen our relationships with strategic business partners such as CSC, Dianping, Dididache, JD.com and Sogou, among others, providing our partners with our full platform support and bringing their products and services to our users.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.20 per share (2012: HKD1.00 per share) for the year ended 31 December 2013, subject to the approval of the shareholders at the AGM. Such proposed dividend will be payable on 30 May 2014 to the shareholders whose names appear on the register of members of the Company on 21 May 2014.

APPRECIATION

On behalf of the Board, I would like to express my sincerest appreciation to our employees for their hardwork, valuable dedication and contributions, which are fundamental for the Group's success on future development. I would also like to extend my heartfelt gratitude to our shareholders and stakeholders for their continued trust, support and steadfast confidence in us. Together, we will continue to build a prosperous ecosystem for the Internet industry.

Ma Huateng
Chairman

Hong Kong, 19 March 2014

OPERATING INFORMATION

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

	As at 31 December 2013	As at 30 September 2013	Quarter-on-quarter change	As at 31 December 2012	Year-on-year change
		(in millions, unless specified)			
MAU of QQ	**808.0**	815.6	-0.9%	798.2	1.2%
PCU of QQ (for the quarter)	**180.3**	178.2	1.2%	176.4	2.2%
Combined MAU of Weixin and WeChat (Note)	**355.0**	336.0	5.7%	160.8	120.8%
MAU of Qzone	**625.2**	623.3	0.3%	602.7	3.7%
PCU of QQ Game Platform (for the quarter)	**8.5**	8.2	3.7%	8.8	-3.4%
Fee-based VAS registered subscriptions	**88.6**	89.0	-0.4%	104.5	-15.2%

Note:

In view of the evolution of Weixin and WeChat from communications services to multi-functional platforms, we have revised the definition of combined MAU of Weixin and WeChat since the fourth quarter of 2013 to denote the total number of user accounts that sent out one or more messages via Weixin/WeChat or conducted other proactive operations on Weixin/WeChat, such as logging into Game Center or updating Moments, at least once during the last calendar month prior to the relevant date. Comparative figures have been restated to conform to the current period's presentation.

Key highlights for the fourth quarter of 2013 are as follows:

- MAU and PCU of QQ grew slightly compared to the same period last year, reflecting users' trend of shifting from PCs to mobile devices. User base of Mobile QQ continued to expand, with smart device MAU increasing by 74% year-to-year to 426 million at the end of the fourth quarter of 2013.
- Weixin and WeChat have been evolving from communications services to multi-functional platforms offering not only messaging activities but also social networking activities and mobile games, as evidenced by increased usage of Moments and Game Center.
- MAU of Qzone grew modestly compared to the same period last year. Smart device MAU increased by 63% year-on-year to 416 million at the end of the fourth quarter of 2013.

Fourth Quarter of 2013 Compared to Third Quarter of 2013

The following table sets forth the comparative figures for the fourth quarter of 2013 and the third quarter of 2013:

	Unaudited Three months ended 31 December 2013	30 September 2013
	(RMB in millions)	
Revenues	**16,970**	15,535
Cost of revenues	**(8,198)**	(7,036)
Gross profit	**8,772**	8,499
Interest income	**377**	336
Other gains, net	**405**	66
Selling and marketing expenses	**(2,033)**	(1,465)
General and administrative expenses	**(2,770)**	(2,621)
Operating profit	**4,751**	4,815
Finance income/(costs), net	**6**	(22)
Share of (losses)/profit of associates	**(14)**	50
Share of losses of joint ventures	**(4)**	(11)
Profit before income tax	**4,739**	4,832
Income tax expense	**(808)**	(955)
Profit for the period	**3,931**	3,877
Attributable to:		
Equity holders of the Company	**3,911**	3,867
Non-controlling interests	**20**	10
	3,931	3,877
Non-GAAP profit attributable to equity holders of the Company	**4,498**	4,376

Revenues. Revenues increased by 9% to RMB16,970 million for the fourth quarter of 2013 from the third quarter of 2013. The following table sets forth our revenues by line of business for the fourth quarter of 2013 and the third quarter of 2013:

	Unaudited Three months ended			
	31 December 2013		30 September 2013	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**11,932**	**70%**	11,635	75%
Online advertising	**1,497**	**9%**	1,390	9%
eCommerce transactions	**3,324**	**20%**	2,359	15%
Others	**217**	**1%**	151	1%
Total revenues	**16,970**	**100%**	15,535	100%

- Revenues from our VAS business increased by 3% to RMB11,932 million for the fourth quarter of 2013 from the third quarter of 2013. Online games revenues remained broadly stable at RMB8,475 million. This mainly reflected the growth and full quarter contribution of revenues from smart phone games integrated with Mobile QQ and Weixin, the increased popularity of LoL across China and international markets, and contributions from new domestic PC game titles such as Blade and Soul, offset by weaker seasonality in China in the fourth quarter. Social networks revenues increased by 8% to RMB3,457 million. This was primarily driven by the growth and full quarter contribution of platform revenues from smart phone games integrated with Mobile QQ and Weixin, partly offset by a decline in subscription revenues.

- Revenues from our online advertising business increased by 8% to RMB1,497 million for the fourth quarter of 2013 from the third quarter of 2013. This primarily reflected growth in revenues from online video advertising and from performance-based advertising, which more than offset the revenue impact of transferring our online search business to Sogou in September 2013.

- Revenues from our eCommerce transactions business increased by 41% to RMB3,324 million for the fourth quarter of 2013 from the third quarter of 2013. This was mainly driven by growth in our principal eCommerce transactions volume as a result of seasonal effects, including seasonal promotional activities towards the end of the year.

Cost of revenues. Cost of revenues increased by 17% to RMB8,198 million for the fourth quarter of 2013 from the third quarter of 2013. This mainly reflected an increase in cost of merchandise sold. As a percentage of revenues, cost of revenues increased to 48% for the fourth quarter of 2013 from 45% for the third quarter of 2013. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2013 and the third quarter of 2013:

	Unaudited			
	Three months ended			
	31 December 2013		30 September 2013	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**3,886**	**33%**	4,069	35%
Online advertising	**1,011**	**68%**	662	48%
eCommerce transactions	**3,164**	**95%**	2,220	94%
Others	**137**	**63%**	85	56%
Total cost of revenues	**8,198**		7,036	

- Cost of revenues for our VAS business decreased by 4% to RMB3,886 million for the fourth quarter of 2013 from the third quarter of 2013. This mainly reflected a decrease in sharing and content costs primarily due to weaker seasonality for licensed PC game titles, partly offset by an increase in bandwidth and server custody fees.

- Cost of revenues for our online advertising business increased by 53% to RMB1,011 million for the fourth quarter of 2013 from the third quarter of 2013. This primarily arose from a periodic review of user video viewing patterns, prompting our decision to accelerate the amortisation of video content costs commencing in the fourth quarter of 2013, which resulted in a true up for the shortfall in such amortisation for previous quarters. Excluding the impact of the acceleration of video content costs amortisation and the related true up, which amounted to RMB317 million on aggregate, cost of revenues for our online advertising business would have increased by 5% sequentially.

- Cost of revenues for our eCommerce transactions business increased by 43% to RMB3,164 million for the fourth quarter of 2013 from the third quarter of 2013. This was mainly driven by an increase in cost of merchandise sold due to growth in our principal eCommerce transactions volume.

Other gains, net. Other gains, net for the fourth quarter of 2013 increased to RMB405 million from RMB66 million for the third quarter of 2013. This primarily reflected increases in disposal gains related to certain investees, subsidies and tax rebates as well as dividend income, partially offset by recognition of impairment provision for selected investees in the fourth quarter of 2013.

Selling and marketing expenses. Selling and marketing expenses increased by 39% to RMB2,033 million for the fourth quarter of 2013 from the third quarter of 2013. This was mainly driven by an increase in advertising spending on eCommerce platforms, WeChat, media platforms, and new PC and smart phone games. As a percentage of revenues, selling and marketing expenses increased to 12% for the fourth quarter of 2013 from 9% for the third quarter of 2013.

General and administrative expenses. General and administrative expenses increased by 6% to RMB2,770 million for the fourth quarter of 2013 from the third quarter of 2013. This mainly reflected an increase in staff costs. As a percentage of revenues, general and administrative expenses decreased to 16% for the fourth quarter of 2013 from 17% for the third quarter of 2013.

Finance income/(costs), net. We recorded finance income, net of RMB6 million for the fourth quarter of 2013, compared to finance costs, net of RMB22 million for the third quarter of 2013. The change mainly reflected higher foreign exchange gain on our foreign currency denominated debts due to exchange rate movements in the fourth quarter of 2013.

Income tax expense. Income tax expense decreased by 15% to RMB808 million for the fourth quarter of 2013 from the third quarter of 2013. In the fourth quarter of 2013, no deferred tax liabilities were recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies, whereas RMB135 million was recognised for such deferred tax liabilities in the previous quarter. In addition, a reversal of income tax expense was recorded in the fourth quarter which resulted from the qualification of tax exemption of a subsidiary in China.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 1% to RMB3,911 million for the fourth quarter of 2013 from the third quarter of 2013. Non-GAAP profit attributable to equity holders of the Company increased by 3% to RMB4,498 million for the fourth quarter of 2013 from the third quarter of 2013.

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

The following table sets forth the comparative figures for the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
	(RMB in millions)	
Revenues	**60,437**	43,894
Cost of revenues	**(27,778)**	(18,207)
Gross profit	**32,659**	25,687
Interest income	**1,314**	836
Other gains/(losses), net	**904**	(284)
Selling and marketing expenses	**(5,695)**	(2,994)
General and administrative expenses	**(9,988)**	(7,766)
Operating profit	**19,194**	15,479
Finance costs, net	**(84)**	(348)
Share of profit/(losses) of associates	**213**	(54)
Share of losses of joint ventures	**(42)**	(26)
Profit before income tax	**19,281**	15,051
Income tax expense	**(3,718)**	(2,266)
Profit for the year	**15,563**	12,785
Attributable to:		
Equity holders of the Company	**15,502**	12,732
Non-controlling interests	**61**	53
	15,563	12,785
Non-GAAP profit attributable to equity holders of the Company	**17,063**	14,286

Revenues. Revenues increased by 38% to RMB60,437 million for the year ended 31 December 2013 from the year ended 31 December 2012. The following table sets forth our revenues by line of business for the years ended 31 December 2013 and 2012:

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

— Revenues from our VAS business increased by 26% to RMB44,985 million for the year ended 31 December 2013 from the year ended 31 December 2012. Online games revenues increased by 34% to RMB31,966 million. The increase primarily reflected growth in our major PC game titles in China and LoL in international markets as well as contribution from launch of new PC game titles. Social networks revenues increased by 9% to RMB13,019 million. This was primarily driven by growth in item-based sales within applications on our open platforms, partly offset by a decline in subscription revenues. Revenues from our online games and social networks also benefited from initial contributions from smart phone games integrated with Mobile QQ and Weixin.

— Revenues from our online advertising business increased by 49% to RMB5,034 million for the year ended 31 December 2013 from the year ended 31 December 2012. This mainly reflected significant growth in revenues from performance-based social advertising and online video advertising. Revenues from traditional brand advertising also increased, though at a more moderate rate. Revenues from search advertising declined as we transferred our search business to Sogou in September 2013.

— Revenues from our eCommerce transactions business increased by 121% to RMB9,796 million for the year ended 31 December 2013 from the year ended 31 December 2012. This was primarily driven by a significant increase in principal eCommerce transactions volume. Fees generated from transactions on our marketplaces also increased.

Cost of revenues. Cost of revenues increased by 53% to RMB27,778 million for the year ended 31 December 2013 from the year ended 31 December 2012. This mainly reflected increases in cost of merchandise sold, as well as sharing and content costs. As a percentage of revenues, cost of revenues increased to 46% for the year ended 31 December 2013 from 41% for the year ended 31 December 2012, mainly due to a revenue mix shift towards the eCommerce transactions business. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2013 and 2012:

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

— Cost of revenues for our VAS business increased by 28% to RMB15,384 million for the year ended 31 December 2013 from the year ended 31 December 2012. This mainly reflected an increase in sharing and content costs due to business growth. Bandwidth and server custody fees as well as staff costs also increased.

— Cost of revenues for our online advertising business increased by 60% to RMB2,777 million for the year ended 31 December 2013 from the year ended 31 December 2012. The increase partly arose from a periodic review of user video viewing patterns, prompting our decision to accelerate the amortisation of video content costs commencing in the fourth quarter of 2013, which resulted in a true up for the shortfall in such amortisation for previous years. This also reflected higher bandwidth and server custody fees as well as commissions payable to advertising agencies. Excluding the impact of the acceleration of video content costs amortisation and the related true up, which amounted to RMB317 million on aggregate, cost of revenues for our online advertising business would have increased by 42%.

— Cost of revenues for our eCommerce transactions business increased by 120% to RMB9,239 million for the year ended 31 December 2013 from the year ended 31 December 2012. This mainly reflected an increase in cost of merchandise sold due to growth in our principal eCommerce transactions volume.

Other gains/(losses), net. We recorded other gains, net of RMB904 million for the year ended 31 December 2013, compared to other losses, net of RMB284 million for the year ended 31 December 2012. The change primarily reflected a decrease in impairment provision for selected investees, as well as increases in disposal gains related to certain investees and subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by 90% to RMB5,695 million for the year ended 31 December 2013 from the year ended 31 December 2012. This mainly reflected a step up in marketing activities related to WeChat in international markets and an increase in advertising spending on online games, mobile utilities and eCommerce platforms. Staff costs also increased as our business expanded. As a percentage of revenues, selling and marketing expenses increased to 9% for the year ended 31 December 2013 from 7% for the year ended 31 December 2012.

General and administrative expenses. General and administrative expenses increased by 29% to RMB9,988 million for the year ended 31 December 2013 from the year ended 31 December 2012. This primarily reflected increases in research and development expenses, staff costs (including share-based compensation) as well as other administrative expenses such as office-related costs. As a percentage of revenues, general and administrative expenses decreased to 17% for the year ended 31 December 2013 from 18% for the year ended 31 December 2012.

Finance costs, net. Finance costs, net decreased by 76% to RMB84 million for the year ended 31 December 2013 from the year ended 31 December 2012. This mainly reflected the recognition of foreign exchange gains on our foreign currency denominated debts due to exchange rate movements in the year ended 31 December 2013, compared to foreign exchange losses in the last year.

Income tax expense. Income tax expense increased by 64% to RMB3,718 million for the year ended 31 December 2013 from the year ended 31 December 2012. This primarily reflected higher profit before income tax and the absence of a reversal of income tax expense for a subsidiary in China which was qualified in the fourth quarter of 2012 to enjoy a lower CIT rate for 2011 and 2012. The increase was partly offset by a decrease in deferred tax liabilities recognised in respect of withholding taxes applicable on unremitted retained earnings expected to be paid by our PRC subsidiaries to their overseas parent companies.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 22% to RMB15,502 million for the year ended 31 December 2013 from the year ended 31 December 2012. Non-GAAP profit attributable to equity holders of the Company increased by 19% to RMB17,063 million for the year ended 31 December 2013 from the year ended 31 December 2012.

Other Financial Information

	Year ended 31 December		Unaudited Three months ended 31 December	Unaudited Three months ended 30 September	Unaudited Three months ended 31 December
	2013	2012	**2013**	2013	2012
	(RMB in millions, unless specified)				
EBITDA (a)	**20,566**	17,540	**5,184**	5,257	4,363
Adjusted EBITDA (a)	**21,734**	18,445	**5,467**	5,601	4,641
Adjusted EBITDA margin (b)	**36%**	42%	**32%**	36%	38%
Interest expense	**394**	327	**105**	99	104
Net cash (c)	**36,218**	27,381	**36,218**	34,400	27,381
Capital expenditures (d)	**5,799**	4,493	**1,679**	1,621	1,784

Note:

(a) EBITDA consists of operating profit less interest income, and plus other losses/(gains), net, depreciation of fixed assets and investment properties and amortisation of intangible assets. Adjusted EBITDA consists of EBITDA plus equity-settled share-based compensation expenses.

(b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.

(c) Net cash represents period end balance and is calculated as cash and cash equivalents, term deposits, and restricted cash pledged for secured bank borrowings, minus borrowings and long-term notes payable.

(d) Capital expenditures consist of additions (excluding business combinations) to fixed assets, construction in progress, land use rights and intangible assets (excluding game and other content licences).

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

	Year ended 31 December		Unaudited Three months ended		
			31 December	30 September	31 December
	2013	2012	**2013**	2013	2012
			(RMB in millions)		
Operating profit	**19,194**	15,479	**4,751**	4,815	3,726
Adjustments:					
Interest income	**(1,314)**	(836)	**(377)**	(336)	(266)
Other (gains)/losses, net	**(904)**	284	**(405)**	(66)	202
Depreciation of fixed assets and investment properties	**2,484**	1,880	**680**	644	531
Amortisation of intangible assets	**1,106**	733	**535**	200	170
EBITDA	**20,566**	17,540	**5,184**	5,257	4,363
Equity-settled share-based compensation	**1,168**	905	**283**	344	278
Adjusted EBITDA	**21,734**	18,445	**5,467**	5,601	4,641

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of acquisitions. The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2013 and 2012, the fourth quarters of 2013 and 2012, and the third quarter of 2013 to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December 2013							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in millions, unless specified)							
Operating profit	**19,194**	**1,168**	**618**	**–**	**139**	**87**	**(438)**	**20,768**
Profit for the year	**15,563**	**1,168**	**618**	**–**	**240**	**87**	**(438)**	**17,238**
Profit attributable to equity holders	**15,502**	**1,155**	**547**	**–**	**210**	**87**	**(438)**	**17,063**
Operating margin	**32%**							**34%**
Net margin	**26%**							**29%**

	Year ended 31 December 2012							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in millions, unless specified)							
Operating profit	15,479	905	108	5	247	699	(390)	17,053
Profit for the year	12,785	905	108	5	286	699	(390)	14,398
Profit attributable to equity holders	12,732	890	95	5	255	699	(390)	14,286
Operating margin	35%							39%
Net margin	29%							33%

	Unaudited three months ended 31 December 2013							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in millions, unless specified)							
Operating profit	**4,751**	**283**	**180**	**–**	**24**	**87**	**–**	**5,325**
Profit for the period	**3,931**	**283**	**180**	**–**	**66**	**87**	**–**	**4,547**
Profit attributable to equity holders	**3,911**	**278**	**160**	**–**	**62**	**87**	**–**	**4,498**
Operating margin	**28%**							**31%**
Net margin	**23%**							**27%**

	Unaudited three months ended 30 September 2013							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
	(RMB in millions, unless specified)							
Operating profit	4,815	344	134	–	38	–	–	5,331
Profit for the period	3,877	344	134	–	58	–	–	4,413
Profit attributable to equity holders	3,867	340	119	–	50	–	–	4,376
Operating margin	31%							34%
Net margin	25%							28%

	Unaudited three months ended 31 December 2012							
		Adjustments						
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Losses/(gains) on deemed disposal (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Special dividend income (e)	Non-GAAP
				(RMB in millions, unless specified)				
Operating profit	3,726	278	25	–	40	251	–	4,320
Profit for the period	3,471	278	25	–	65	251	–	4,090
Profit attributable to equity holders	3,464	275	22	–	56	251	–	4,068
Operating margin	31%							36%
Net margin	29%							34%

Note:

(a) Including put options granted to employees of investees on their shares and shares to be issued under investees' share-based incentive plans which can be acquired by the Group, and other incentives

(b) Losses/(gains) on deemed disposal of previously held interests in associates

(c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax

(d) Impairment provision for associates and available-for-sale financial assets

(e) Special dividend income from Mail.ru

Liquidity and Financial Resources

Our net cash positions as at 31 December 2013 and 30 September 2013 are as follows:

	Audited 31 December 2013	Unaudited 30 September 2013
	(RMB in millions)	
Cash and cash equivalents	**20,228**	18,602
Term deposits, current and non-current	**31,043**	31,021
	51,271	49,623
Borrowings, current and non-current	**(5,912)**	(6,007)
Long-term notes payable	**(9,141)**	(9,216)
Net cash	**36,218**	34,400

As at 31 December 2013, RMB6,039 million of our financial resources (30 September 2013: RMB8,449 million) were held in deposits denominated in non-RMB currencies. Since there are no cost-effective hedges against the fluctuation of RMB and no effective manner to generally convert a significant amount of non-RMB currencies into RMB, which is not a freely exchangeable currency, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 10 to the consolidated financial statements.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations are set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 79 of this annual report.

The directors have recommended the payment of a final dividend of HKD1.20 per share for the year ended 31 December 2013. The dividend is expected to be payable on 30 May 2014 to the shareholders whose names appear on the register of members of the Company on 21 May 2014. The total dividend for the year under review is HKD1.20 per share.

RESERVES

The Company may pay dividends out of share premium, retained earnings and any other reserves in respect of prior profits provided that immediately following the payment of such dividends the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2013, the Company had distributable reserves amounting to RMB4,270 million (2012: RMB4,669 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in Note 19 and Note 20 to the consolidated financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 19 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2013 are set out in Note 10 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings and long-term notes payable are set out in Note 25 and Note 26 to the consolidated financial statements respectively.

DONATION

The donation made by the Group in the year was RMB124 million to the Tencent Charity Funds.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 3 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2013, the Company repurchased 6,643,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD1,634 million before expenses. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in 2013	No. of shares purchased	Purchase consideration per share Highest price paid HKD	Purchase consideration per share Lowest price paid HKD	Aggregate consideration paid HKD
March	2,057,300	258.8	239.6	508,772,607
April	4,585,700	251.4	238.4	1,125,505,991
Total	6,643,000			1,634,278,598

Save as disclosed above and in Note 19 to the consolidated financial statements, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2013.

SHARE OPTION SCHEMES

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. No further options will be granted under the Pre-IPO Option Scheme and the Post-IPO Option Scheme I.

As at 31 December 2013, there were a total of 3,000,000 outstanding share options granted to the directors of the Company, details of which are as follows:

			Number of shares issuable under the options				
Name of director	Date of grant	Exercise price HKD	As at 1 January 2013	Granted during the year	Exercised during the year	As at 31 December 2013	Exercise period
Lau Chi Ping Martin	5 July 2007	33.05	1,000,000	–	1,000,000 (Note 5)	–	5 July 2009 to 4 July 2014 (Note 1)
	5 July 2007	33.05	3,000,000	–	1,000,000 (Note 5)	2,000,000	5 July 2010 to 4 July 2014 (Note 2)
	24 March 2010	158.50	1,000,000	–	–	1,000,000	24 March 2015 to 23 March 2020 (Note 3)
		Total	5,000,000	–	2,000,000	3,000,000	
Li Dong Sheng	4 April 2007	25.26	40,000	–	40,000 (Note 5)	–	4 April 2008 to 23 March 2014 (Note 4)
Iain Ferguson Bruce	4 April 2007	25.26	40,000	–	40,000 (Note 5)	–	4 April 2008 to 23 March 2014 (Note 4)
Ian Charles Stone	4 April 2007	25.26	60,000	–	60,000 (Note 5)	–	4 April 2008 to 23 March 2014 (Note 4)
		Grand Total	5,140,000	–	2,140,000	3,000,000	

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised two years after the grant date, and 20% each of the total options will become exercisable in each subsequent year.

2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised three years after the grant date, and 20% each of the total options will become exercisable in each subsequent year, except the last 20% of the total options which will become exercisable in the eleventh month after the fourth 20% of the total options become exercisable.

3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the option can be exercised five years after the grant date, and 25% each of the total options will become exercisable in each subsequent year.

4. For options granted with exercisable date determined based on the grant date of options, the first 20% of the option can be exercised one year after the grant date, and 20% each of the total options will become exercisable in each subsequent year.

5. The closing price immediately before the dates on which the options were exercised by each of the directors were as follows:

Name of director	**Weighted average closing price HKD**
Lau Chi Ping Martin	321.3
Li Dong Sheng	417.2
Iain Ferguson Bruce	421.8
Ian Charles Stone	300.4

6. No options were granted, cancelled or lapsed during the year.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
1.	Purposes	To recognise the contribution that certain individuals have made to the Group, to attract the best available personnel and to promote the success of the Group's business			
2.	Qualifying participants	Any eligible employee, including executive directors of the Company	Any employee, consultant or director of any company within the Group	Any employee (whether full time or part time), executive or officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity, which is any entity in which the Group holds an equity interest, and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity	Any senior executive or senior officer, director (including executive, non-executive and independent non-executive directors) of any member of the Group or any invested entity and any consultant, adviser or agent of any member of the Board, who have contributed or will contribute to the growth and development of the Group or any invested entity

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
3.	Maximum number of shares	As at 7 June 2004, options to subscribe for an aggregate of 72,386,370 shares were outstanding. No further option could be granted under the Pre-IPO Option Scheme.	As at 16 May 2007, options to subscribe for an aggregate of 60,413,683 shares were outstanding. No further option could be granted under the Post-IPO Option Scheme I.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 88,903,654 shares, 5% of the relevant class of securities of the Company in issue as at 16 May 2007. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued share capital of the Company from time to time (Note).	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall be 36,018,666 shares, 2% of the relevant class of securities of the Company in issue as at 13 May 2009. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme III and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II, must not in aggregate exceed 30% of the issued share capital of the Company from time to time (Note).

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
4.	Maximum entitlement of each participant	The number of ordinary shares in respect of which options may be granted is not permitted to exceed 10% of the number of ordinary shares issued and issuable under the scheme.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant
5.	Option period	All the options are exercisable in installments from the commencement of the relevant vesting period until 31 December 2011, but on the condition that the Company has been listed in a sizeable securities market. The Board may at their discretion determine the specific vesting and exercise periods.	The option period is determined by the Board provided that the period during which the option may be exercised shall not be less than one year from the date of grant of the options.	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined by the Board provided that it is not later than the last day of the 10-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
6.	Acceptance of offer	Options granted must be accepted within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	Subscription price	Price shall be determined by the Board.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
8.	Remaining life of the scheme	It expired on 31 December 2011.	It shall be valid and effective for a period of ten years, commencing on 24 March 2004.	It shall be valid and effective for a period of ten years commencing on 16 May 2007.	It shall be valid and effective for a period of ten years commencing on 13 May 2009.

Note:

The total number of shares available for issue under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III is 86,247,332, which is approximately 4.63% of the issued share capital of the Company as at the date of the annual report.

MOVEMENTS IN THE SHARE OPTION

Details of the movements in the share options during the year are set out in Note 21 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 21 to the consolidated financial statements.

SHARE AWARD SCHEMES

The Company adopted the following two Share Award Schemes with major terms and details set out below:

		2007 Share Award Scheme	2013 Share Award Scheme
1.	Purpose	To recognise the contributions and to attract, motivate and retain eligible participants (including any director) of the Group	
2.	Duration and Termination	It shall be valid and effective for a period of 15 years from the Adoption Date I.	It shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant.
3.	Maximum number of shares that can be awarded	2% of the issued share capital of the Company as at the Adoption Date I (i.e. 35,755,232 shares)	3% of the issued share capital of the Company as at the Adoption Date II (i.e. 55,787,452 shares)
4.	Maximum entitlement of each participant	1% of the issued share capital of the Company as at the Adoption Date I (i.e. 17,877,616 shares)	1% of the issued share capital of the Company as at the Adoption Date II (i.e. 18,595,817 shares)

	2007 Share Award Scheme	2013 Share Award Scheme
5. Operation	The Board shall select the Eligible Person(s) and determine the number of shares to be awarded. The Board shall, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources into the Account I or to the Trustee to be held on trust for the relevant Selected Participant for the purchase and/or subscription of the Awarded Shares as soon as practicable after the Reference Date.	The Board may, from time to time, at its absolute discretion select any Eligible Person to be a Selected Participant and grant to such Selected Participant Awarded Shares. The Board may at any time at its discretion, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources or any Subsidiary's resources into the Account II for the purchase and/or subscription of Awarded Shares as soon as practicable after the Grant Date.

		2007 Share Award Scheme	2013 Share Award Scheme
6.	Restrictions	No award shall be made by the Board and no instructions to acquire shares and allot new shares shall be given by the Board or the Trustee under the 2007 Share Award Scheme where any director is in possession of unpublished price-sensitive information in relation to the Group or where dealings by directors are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.	No award may be made by the Board to any Selected Participant: (i) where the Company has information that must be disclosed under Rule 13.09 of the Listing Rules or where the Company reasonably believes there is inside information which must be disclosed under part XIVA of the SFO, until such inside information has been published on the websites of the Stock Exchange and the Company; (ii) after any inside information in relation to the securities of the Company has occurred or has become the subject of a decision, until such inside information has been published; (iii) within the period commencing 60 days (in the case of yearly results), or 30 days (in the case of results for half-year, quarterly or other interim period) immediately preceding the earlier of (1) the date of a meeting of the Board (as such date is first notified to the Stock Exchange) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and (2) the deadline for the Company to publish its quarterly, interim or annual results announcement for any such period, and ending on the date of such announcement; or (iv) in any other circumstances where dealings by Selected Participant (including directors) are prohibited under the Listing Rules, SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authorities has not been granted.

		2007 Share Award Scheme	2013 Share Award Scheme
7.	Vesting and Lapse	Awarded Shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of grant of the award. Vesting of the shares will be conditional on the Selected Participant satisfying all vesting conditions specified by the Board at the time of making the award until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee.	The vesting of the Awarded Shares is subject to the Selected Participant remaining at all times after the Grant Date and on the date of vesting, an Eligible Person, subject to the rules of 2013 Share Award Scheme. Subject to the satisfaction of all vesting conditions as prescribed in the 2013 Share Award Scheme, the Selected Participants will be entitled to receive the Awarded Shares.
8.	Voting Rights	The Trustee shall not exercise the voting rights in respect of any shares held by it pursuant to the Trustee Deed I (including but not limited to the Awarded Shares and any bonus shares and scrip shares derived therefrom).	The Trustee does not exercise any voting rights in respect of any shares held pursuant to the Trustee Deed II or as nominee.

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

During the year, a total of 5,188,175 Awarded Shares were granted and no Awarded Shares were granted to the directors of the Company. Details of the movements in the Share Award Schemes during the year are set out in Note 21 to the consolidated financial statements.

As at 31 December 2013, there were a total of 21,000 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

		Number of Awarded Shares				
Name of director	**Date of grant**	**As at 1 January 2013**	**Granted during the year**	**Vested during the year**	**As at 31 December 2013**	**Vesting period**
Iain Ferguson Bruce	17 March 2011	16,000	–	4,000	12,000	17 March 2012 to 17 March 2016
Ian Charles Stone	17 March 2011	12,000	–	3,000	9,000	17 March 2012 to 17 March 2016
	Total	28,000	–	7,000	21,000	

DIRECTORS AND SENIOR MANAGEMENT

The directors and senior management of the Company during the year and up to the date of this report were:

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin
Zhang Zhidong (resigned with effect from 20 March 2014)

Non-Executive Directors

Jacobus Petrus Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone

In accordance with Article 87 of the Articles of Association, Messrs Lau Chi Ping Martin and Charles St Leger Searle will retire at the AGM and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ma Huateng, age 42, is an executive director, Chairman of the Board and CEO of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 5th Shenzhen Municipal People's Congress and the 12th National People's Congress. Mr Ma has a Bachelor of Science Degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 20 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which holds shares of the Company and also a substantial shareholder of the Company.

Lau Chi Ping Martin, age 40, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and an MBA Degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong.

Zhang Zhidong, age 42, is an executive director and Chief Technology Officer of the Company. Mr Zhang has overall responsibilities for the development of our proprietary technologies, including the basic IM platform and massive-scale online application systems. Mr Zhang is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Zhang worked at Liming Network Group focusing on software and network application systems research and development. Mr Zhang has a Bachelor of Science Degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and a Master's Degree in Computer Application and System Structure from South China University of Technology obtained in 1996. Mr Zhang has more than 17 years of experience in the telecommunications and Internet industries. He is also a director of Best Update International Limited which holds shares of the Company. Mr Zhang has resigned as an executive director and Chief Technology Officer with effect from 20 March 2014 and 20 September 2014 respectively. He will take up his new positions as Advisor Emeritus and the Honorary President of Tencent Academy from 20 September 2014 onwards.

Jacobus Petrus Bekker, age 61, has been a non-executive director since November 2012. Mr Bekker is the managing director and CEO of Naspers Limited, a company listed on the Johannesburg Stock Exchange and the controlling shareholder of the Company. Mr Bekker is one of the founding members of M-Net/ MultiChoice South Africa pay-television business in 1985. He was also a founder of the cellular telephony business MTN. Mr Bekker led the Naspers group since 1997, when he became CEO of Naspers Limited. He served on the local organising committee for the 2010 FIFA World Cup and the Council of the University of Stellenbosch. Mr Bekker obtained a Bachelor of Arts Degree in Law and an honours Degree in Languages at the University of Stellenbosch in 1974 and 1975 respectively. He also obtained a Bachelor of Laws Degree from University of the Witwatersrand in 1978 and an MBA Degree from Columbia University in 1984. Mr Bekker was awarded an honorary doctorate degree in commerce from the University of Stellenbosch.

Charles St Leger Searle, age 50, has been a non-executive director since June 2001. Mr Searle is currently CEO of Naspers Internet Listed Assets. Prior to joining the Naspers group companies, he held various corporate finance positions at Cable & Wireless plc and Hong Kong Telecom. Prior to joining Cable & Wireless plc, he was a senior corporate finance manager at Deloitte & Touche in London and Sydney. Currently, Mr Searle serves on the boards of directors of a number of companies that are subsidiaries of or associated companies with Naspers. Mr Searle graduated from the University of Cape Town in 1987 with a Bachelor of Commerce Degree and is a member of the Institute of Chartered Accountants in Australia (1992). Mr Searle has more than 20 years of experience in the telecommunications and Internet industries.

Li Dong Sheng, age 56, has been an independent non-executive director since April 2004. Mr Li is the Chairman and CEO of TCL Corporation, the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited and the Chairman of the Hong Kong listed TCL Communication Technology Holdings Limited, all of which produce consumer electronic products. Mr Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on New York Stock Exchange Euronext. Mr Li graduated from South China University of Technology in 1982 with a Bachelor Degree in Radio Technology and has more than 19 years of experience in the information technology field.

Iain Ferguson Bruce, age 73, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 49 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is the Chairman of KCS Limited, and is an independent non-executive director of Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, Louis XIII Holdings Limited (formerly known as Paul Y. Engineering Group Limited), a construction, engineering services and hotel development company, Sands China Ltd., an operator of integrated resorts and casinos, Vitasoy International Holdings Limited, a beverage manufacturing company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on The Stock Exchange of Hong Kong Limited. Mr Bruce is also an independent non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited and of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce was an independent non-executive director of China Medical Technologies, Inc., a China-based medical device company that was listed on NASDAQ, up to 3 July 2012.

Ian Charles Stone, age 63, has been an independent non-executive director since April 2004. Mr Stone is currently an Advisor on International Projects for PCCW Limited and CEO of SITC (a PCCW joint venture) in Saudi Arabia. Since 2001 in PCCW he has been CEO of UK Broadband in UK and then PCCW Mobile in Hong Kong, followed by being the Managing Director of the International Projects business. Mr Stone has more than 43 years of experience in the telecom and mobile industries. He was CEO of SmarTone between 1999 and 2001 prior to which held various senior positions in telecom businesses of the First Pacific Group in Hong Kong and Philippines. Mr Stone has also held senior positions at Cable & Wireless plc and Hong Kong Telecom, including as Managing Director of CSL and Commercial Director of Hong Kong Telecom. Mr Stone is a fellow member of The Hong Kong Institute of Directors.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 42, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr Xu received a Bachelor of Science Degree in Computer Science from Shenzhen University in 1993 and a Master of Science Degree in Computer Science from Nanjing University in 1996.

Ren Yuxin, age 38, Chief Operating Officer and President of Interactive Entertainment Group and Mobile Internet Group, joined the Company in 2000 and had served as General Manager for the value-added services development division and General Manager for Interactive Entertainment business division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr Ren has been appointed as Chief Operating Officer and is now in charge of the Interactive Entertainment Group, Mobile Internet Group and Social Network Group. Prior to joining the Company, Mr Ren has worked in Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science Degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA Degree from China Europe International Business School (CEIBS) in 2008.

James Gordon Mitchell, age 40, Chief Strategy Officer and Senior Executive Vice President, joined the Company in August 2011. He is responsible for various functions, including the Company' strategic planning, strategic implementation, and investor relationships since 2012. Prior to joining the Company, Mr Mitchell had worked in investment banking for 16 years. Most recently, Mr Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analyzed Internet, entertainment and media companies globally. Mr Mitchell received a Degree from Oxford University and holds a Chartered Financial Analyst Certification.

Lau Seng Yee, age 47, Senior Executive Vice President and President of Online Media Group, joined the Company in 2006 and is responsible for overseeing the Company's online media business, and the development of the Company's online advertising business model, as well as the branding strategies for the Company. Mr Lau is a seasoned professional in the media industry with more than 20 years of solid experience working, with a rare 19 years of on-ground China market experience. In 2007, Mr Lau sat in the advisory board for ad:tech, the globally renowned organization for Online Marketing. Mr Lau held the post of Vice President of China Advertising Association since 2007, as well as the Visiting Professor of Shanghai Normal University. In 2010, Mr Lau was appointed as the Adjunct Professor of School of Journalism and Communication of Xiamen University. Prior to joining the Company, Mr Lau was the Managing Partner of Publicis China and CEO for BBDO China. Before that, he also held senior management positions at Dentsu Young & Rubicam in Shanghai, and McCann-Erickson in Beijing and Hong Kong. Mr Lau received an EMBA Degree from Rutgers State University of New Jersey, USA. He also completed the Advanced Marketing Management program, and the Advanced Management Program (AMP) in Harvard Business School. In 2011, Mr Lau was honored by New York based AdAge publication as one of "The World's 21 Most Influential People in Marketing and Media Industry, 2009-2010".

Tong Tao Sang, age 40, Senior Executive Vice President and President of Social Network Group, joined the Company in 2005. Mr Tong has been responsible for the research and development of social network platforms as well as the management of value-added services since October 2008. Since May 2012, Mr Tong has been responsible for the QQ messaging and social networking platforms, value-added businesses, and the open-platform strategy. Prior to joining the Company, Mr Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr Tong received a Bachelor of Science Degree in Computer Engineering from University of Michigan, Ann Arbor in 1994 and a Master of Science Degree in Electrical Engineering from Stanford University in 1997.

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

Wu Xiaoguang, age 38, Senior Executive Vice President and CEO of Tencent E-Commerce Holdings Limited, joined the Company in 1999, he led the development and product planning for the Group's core product, the QQ IM client software and has served as Project Manager for the research and development team of QQ, General Manager for IM product, General Manager for Internet business division and Senior Vice President of Internet Services Division. Since May 2012, Mr Wu has been appointed as CEO of Tencent E-Commerce Holdings Limited, responsible for the development and management of e-Commerce business. Mr Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. He received a Bachelor of Science Degree in Weather Dynamics from Nanjing University in 1996 and an EMBA Degree from China Europe International Business School (CEIBS) in 2008.

David A M Wallerstein, age 39, Senior Executive Vice President and Chairman of Tencent America LLC, joined the Company in 2001. He oversees the Company's international business initiatives and is responsible for the Group's activities in the United States. Prior to joining the Company, Mr Wallerstein was the Vice President, Business Development of Naspers in China, responsible for investments and strategy. Prior to that, Mr Wallerstein worked as a management consultant in China. Mr Wallerstein received a Master's Degree in Political Economy from UC Berkeley and a Bachelor's Degree from the Jackson School at the University of Washington.

Zhang Xiaolong, age 44, Senior Vice President, joined the Company in March 2005 and served as the General Manager for the Guangzhou R&D division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin and QQ Mail. He is also responsible for the management and review of major innovation projects. Prior to joining the Company, Mr Zhang developed Foxmail independently in 1997 as the 1st generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr Zhang received his Master's Degree in Telecommunications from Huazhong University of Science and Technology in 1994.

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

John Shek Hon Lo, age 45, Senior Vice President and Chief Financial Officer, joined the Company in 2004 and served as the Company's Financial Controller from 2004 to 2008. Mr Lo was appointed as the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr Lo received a Bachelor of Business in Accounting Degree from Curtin University of Technology and an EMBA Degree from Kellogg Graduate School of Management, Northwestern University and HKUST.

Guo Kaitian, age 41, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of administration, legal affairs, government relations, public relations, charity fund, procurement as well as the functional management of the branches in Beijing, Shanghai and Chengdu. Mr Guo received a Bachelor of Law Degree from Zhongnan University of Economics and Law in 1996.

Xi Dan, age 38, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr Xi was responsible for HR management in ZTE Corporation and has more than 18 years of experience in IT and Internet industries. Mr Xi received a Bachelor of Science Degree in Applied Computer Science from Shenzhen University in 1996 and a MBA Degree from Tsinghua University in 2005.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs Ma Huateng and Zhang Zhidong has entered into a service contract with the Company for a term of less than 3 years from 25 March 2013 to 31 December 2015. The term of each service contract can be extended by agreement between the Company and the relevant director. The Company may terminate the service contracts by three months' written notice at any time, subject to paying the director his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination becomes effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years ending 31 December 2015. Mr Lau is entitled to an annual bonus based on the performance of the Company in an amount to be determined by the Remuneration Committee. Mr Lau is entitled to participate in all employee benefit plans, programs and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2013, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

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

Name of Director	Long/short position	Nature of interests	Number of shares/underlying shares held	Percentage of issued share capital
Ma Huateng	Long position	Corporate (Note 1)	189,892,880	10.20%
Zhang Zhidong	Long position	Corporate (Note 2)	65,000,000	3.49%
Lau Chi Ping Martin	Long position	Personal	8,953,600 (Note 3)	0.48%
Iain Ferguson Bruce	Long position	Personal	82,000 (Note 4)	0.004%
Ian Charles Stone	Long position	Personal	75,000 (Note 5)	0.004%

Note:

1. These shares are held by Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng.

2. These shares are held by Best Update International Limited, a British Virgin Islands company wholly-owned by Zhang Zhidong.

3. The interest comprises 5,953,600 shares and 3,000,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out above under "Share Option Schemes".

4. The interest comprises 70,000 shares and 12,000 underlying shares in respect of the awarded shares granted pursuant to the Share Awarded Schemes. Details of the awarded shares granted to this director are set out above under "Share Award Schemes".

5. The interest comprises 66,000 shares and 9,000 underlying shares in respect of the awarded shares granted pursuant to the Share Awarded Schemes. Details of the awarded shares granted to this director are set out above under "Share Award Schemes".

(B) Long position in the shares in associated corporations

Name of Director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Percentage of issued share capital
Ma Huateng	Tencent Computer	Personal	RMB16,285,710 (registered capital)	54.29%
	Shiji Kaixuan	Personal	RMB5,971,427 (registered capital)	54.29%
Zhang Zhidong	Tencent Computer	Personal	RMB6,857,130 (registered capital)	22.86%
	Shiji Kaixuan	Personal	RMB2,514,281 (registered capital)	22.86%

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2013.

CONNECTED TRANSACTIONS

Reference is made to the waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004. The Company's independent non-executive directors had reviewed the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) as at 31 December 2013 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Cyber Shenzhen, Tencent Chengdu, Tencent Shanghai and Tencent Wuhan. The Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by Tencent Computer, Shiji Kaixuan or the New OPCOs to the holders of their equity interests and any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period the terms of which are fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, similar Structure Contracts were entered into relating to the New OPCOs.

The Auditor had carried out procedures on the transactions pursuant to the Structure Contracts and had provided a letter to the Board confirming that such transactions had been approved by the Board and had been entered into, in all material respects, in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of Tencent Computer, Shiji Kaixuan and the New OPCOs as at 31 December 2013 to the WFOEs and that no dividends or other distributions had been made by Tencent Computer or Shiji Kaixuan or the New OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2013, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. Pursuant to the TCS CFC, the parties shall co-operate in the provision of communications services. Tencent Technology and its affiliates shall allow Tencent Computer to use its and its affiliates' assets and to provide services to Tencent Computer. Tencent Computer shall transfer all of its Surplus Cash to Tencent Technology and its affiliates as consideration. The parties also established the TCS Co-operation Committee according to this agreement. During the year, revenue sharing amounting to approximately RMB17,636,000,000, RMB2,280,000,000, RMB4,777,000,000, RMB1,022,000,000, RMB1,896,000,000, and RMB405,000,000 were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, and Tencent Wuhan, respectively. In addition, during the year, Internet data center service fee amounting to approximately RMB351,000,000 was paid or payable by Tencent Computer to Cyber Tianjin.

2. Pursuant to the SKT CFC, the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established the SKT Co-operation Committee according to this agreement. During the year, no services was transacted under such arrangements, save as disclosed elsewhere in this section.

3. Pursuant to the amended and restated intellectual property transfer agreement dated 28 February 2004 entered into between Tencent Technology and Tencent Computer, Tencent Computer shall assign to Tencent Technology its principal present and future intellectual property rights, free from encumbrances (except for licences granted in the ordinary course of Tencent Computer's business) in consideration of Tencent Technology's undertaking to provide certain technology and information services to Tencent Computer. During the year, no intellectual property transfer was transacted under such arrangements, save as disclosed elsewhere in this section.

4. Pursuant to the intellectual property transfer agreement dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan, Shiji Kaixuan shall assign to Cyber Tianjin its principal present and future intellectual property rights, free from encumbrance (except for licences granted in the ordinary course of Shiji Kaixuan's business) in consideration of Cyber Tianjin's undertaking to provide certain technology and information services to Shiji Kaixuan. During the year, no intellectual property transfer was transacted under such arrangements, save as disclosed elsewhere in this section.

5. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive license to use specified domain names against payment of annual royalties determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no domain name license was transacted under such arrangements, save as disclosed elsewhere in this section.

6. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant Shiji Kaixuan a non-exclusive licence to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.

7. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the agreement or the TCS CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

8. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant Shiji Kaixuan a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

9. Pursuant to the information consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

10. Pursuant to the technical consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Cooperation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

11. Pursuant to the co-operation framework agreement entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each agreement, the WFOEs shall allow the New OPCOs to use its and its affiliates' assets and provide services to the New OPCOs. The New OPCOs shall transfer all of its Surplus Cash to the WFOEs and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, revenue sharing amounting to approximately RMB125,000,000, RMB37,000,000, RMB404,000,000, RMB203,353 and RMB7,000,000 was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu and Tencent Wuhan, respectively. Revenue sharing amounting to approximately RMB31,000,000, RMB57,000,000, RMB151,000,000, RMB261,000,000, and RMB31,000,000 was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu and Tencent Wuhan respectively. Revenue sharing amounting to approximately RMB2,000,000, RMB30, RMB7,000,000, RMB30,000,000 and RMB62 was paid or payable by Beijing Starsinhand to Tencent Technology, Cyber Tianjin,Tencent Beijing, Tencent Chengdu and Tencent Wuhan respectively. Revenue sharing amounting to approximately RMB88,215 was paid or payable by Guangzhou Yunxun to Tencent Technology.

On 10 October 2013, the Group has entered into a series of connected transactions with MIH Group (Naspers Limited and its subsidiaries), with respect to the operations in India and Thailand. Please refer to the Company's announcement dated 10 October 2013 for the terms of these transactions. Save as the related parties transaction disclosed in Note 44 to the Consolidated Financial Statements, no related parties transactions disclosed in the Consolidated Financial Statements constitutes a discloseable connected transaction as defined under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the following persons, other than the directors or chief executive of the Company, had an interest or short position in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long/short position in the shares in the Company

Name of shareholder	Long/short position	Nature of interest/Capacity	Number of shares/underlying shares held	Percentage of issued share capital
MIH TC	Long position	Corporate (Note 1)	630,240,380	33.85%
Advance Data Services Limited	Long position	Corporate (Note 2)	189,892,880	10.20%
JPMorgan Chase & Co.	Long position	Beneficial owner	10,614,241	
		Investment manager	17,273,400	
		Trustee (other than a bare trustee)	6,630	
		Custodian corporation/ approved lending agent	65,643,029	
		Total (Note 3(i)):	93,537,300	5.02%
	Short position	Beneficial owner (Note 3(ii))	3,708,714	0.19%

Note:

1. MIH TC is controlled by Naspers Limited through its wholly-owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings (Proprietary) Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings (Proprietary) Limited are deemed to be interested in the same block of 630,240,380 shares under Part XV of the SFO.

2. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has interest in these shares as disclosed under the section of "Directors' Interests in Securities".

3. (i) Such long position includes derivative interests in 4,758,558 underlying shares of the Company of which 1,164,452 underlying shares are derived from listed and physically settled derivatives, 2,460,800 underlying shares are derived from listed and cash settled derivatives, 312,691 underlying shares are derived from unlisted and physically settled derivatives and 820,615 underlying shares are derived from unlisted and cash settled derivatives. It also includes 65,643,029 shares in lending pool.

   (ii) Such short position includes derivative interests in 3,695,614 underlying shares of the Company of which 1,073,376 underlying shares are derived from listed and physically settled derivatives, 1,070,300 underlying shares are derived from listed and cash settled derivatives, 98,623 underlying shares are derived from unlisted and physically settled derivatives and 1,453,315 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 31 December 2013, had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the five largest customers of the Group accounted for approximately 6.1% of the Group's total revenues while the largest customer of the Group accounted for approximately 1.9% of the Group's total revenues. In addition, for the year ended 31 December 2013, the five largest suppliers of the Group accounted for approximately 27.0% of the Group's total purchases while the largest supplier of the Group accounted for approximately 16.2% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued capital) had an interest in any of the major customers or suppliers noted above.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2013. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed in the 2012 annual report and the 2013 interim report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2013, complied with the CG Code.

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

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The directors of the Company have complied with such code of conduct throughout the accounting year covered by this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2013, the Group had 27,492 employees (2012: 24,160). The number of employees employed by the Group varies from time to time depending on needs and the employees are remunerated based on industry practice.

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

The total remuneration cost (including capitalised remuneration cost) incurred by the Group for the year ended 31 December 2013 was RMB10,364 million (2012: RMB7,724 million).

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

(A) Entitlement to Attend and Vote at the AGM

The register of members will be closed from Monday, 12 May 2014 to Wednesday, 14 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 May 2014.

(B) Entitlement to the Proposed Final Dividend

The register of members will be closed from Tuesday, 20 May 2014 to Wednesday, 21 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 19 May 2014.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 19 March 2014

Strong corporate governance and ethical business practices are core values of the Group. The Board views effective corporate governance practices as priority, with the aim of providing our investors a thorough understanding of the Group's management and how the different businesses of the Group are managed. Our belief is that investors will recognise significant long-term value when the Group's businesses are conducted in an open and responsible manner. Ethical business practices go hand in hand with strong corporate governance, and we believe that running our businesses in an ethical manner will create trust with the public and ultimately create value for investors.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions as set out in the CG Code, except for the deviation from the code provisions A.2.1 regarding the segregation of the role of the chairman and chief executive and A.4.2 regarding the retirement and re-election of directors.

The Board continues to monitor and review the Company's corporate governance practices and makes necessary changes at an appropriate time.

BOARD OF DIRECTORS

Responsibilities

The Board's fundamental responsibility is to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board oversees management's efforts to promote the Company's success while operating in an effective and responsible manner. The Board also formulates the Company's overall business strategy and monitors management's execution of this strategy.

By discharging its responsibilities, the Board has defined the business and governance issues for which it needs to be responsible, and these matters reserved for the Board have been separately defined, and are reviewed periodically, to ensure that the Company maintains the proper level of corporate governance. In this regard, the Board:

- determines the Group's mission, provides its strategic direction and is responsible for the approval of strategic plans
- approves the annual business plan and budget proposed by management
- retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual budget and business plan
- appoints the CEO, who reports to the Board, and ensures that succession is planned
- approves the Company's financial statements, quarterly, interim and annual reports
- determines the Group's communication policy

- determines director selection, orientation and evaluation
- ensures that the Group has appropriate risk management, internal control and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders
- establishes Board sub-committees with clear terms of reference and responsibilities as appropriate
- defines levels of delegation in respect of specific matters, with required authority to Board sub-committees and management
- monitors non-financial aspects pertaining to the business of the Group
- considers and, if appropriate, declares the payment of dividends to shareholders
- regularly evaluates its own performance and effectiveness

The Board delegates the responsibility of day-to-day business and operations to the Company's senior management team, which includes its chief officers, the president and executive vice-presidents. The senior management team meets once every two weeks or as frequent as necessary to formulate policies and make recommendations to the Board. The senior management team administers, enforces, interprets and supervises compliance with the internal rules and operational procedures of the Company as well as its subsidiaries and conducts regular reviews, recommends and advises on appropriate amendments to such rules and procedures. The senior management team reports to the Board on a regular basis and communicates with the Board whenever required.

To better serve the long term interests of our stakeholders, the Board dedicates certain matters which require particular time, attention and expertise to be devoted to its Committees. The Board has determined that these matters are better dealt with by the Committees as they require independent oversight and specialists input. As such, the Board has established five Committees to assist the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. Each of the Committees has terms of reference which clearly specifies its powers and authorities. All Committees report back to the Board and make recommendations to the Board if necessary.

The Company's governance structure of these Committees can be summarised as follows:

Audit Committee

- handles the relationship with the Company's external auditor
- reviews the Company's financial information
- exercises oversight of the Company's financial reporting system and internal control procedures

Corporate Governance Committee

- reviews the Company's corporate governance matters and makes recommendations to the Board
- reviews and monitors the training and continuous professional development of the directors of the Company and senior management team
- reviews and monitors the Company's policies and practices on the compliance with legal and regulatory requirements
- develops, reviews and monitors the code of conduct and compliance manual (if any) applicable to employees and directors
- reviews the Shareholders Communication Policy and makes recommendations to the Board where appropriate to enhance effective communications between the Company and its shareholders
- reviews the Company's compliance with the CG Code and disclosure in the Corporate Governance Report

Investment Committee

- identifies, considers and makes recommendations on mergers, acquisitions and disposals
- ensures compliance of the Listing Rules and any other relevant laws and regulations of any mergers, acquisitions and disposals

Nomination Committee

- reviews and monitors the structure, size, composition and diversity of the Board in light of the Company's strategy
- identifies individuals and makes recommendations to the Board to be new Board members, by taking into account of the individual's experience, knowledge, skills, qualifications and characters, as well as the Listing Rules requirements
- reviews and makes recommendations to the Board on individuals nominated to be a director by shareholders
- assesses the independence of independent non-executive directors
- reviews and monitors the implementation of the Board Diversity Policy of the Company

Remuneration Committee

- reviews and approves proposals about the policy and structure of remuneration of directors and senior management team
- ensures these remuneration proposals are aligned to corporate goals and objectives
- ensures that no director or any of his associates is involved in deciding his own remuneration

The work of the Committees during the year 2013 is set out on pages 62 to 65.

All directors have full and timely access to all relevant information as well as advice and services of the Company's general counsel and the Company Secretary, with a view to ensuring the Board procedures and all applicable rules and regulations are followed. All directors may also obtain independent professional advice at the Company's expenses for carrying out their functions.

We believe ongoing education and training, as well as participation in director education programs, is important for maintaining a current and effective Board. In order to ensure the directors are aware of their responsibilities as directors of the Company, and for the Company to take advantage of their rich mix of knowledge and experience, it is our practice that new directors have to undergo an orientation programme and the existing directors have to attend a comprehensive, formal and tailored training on their duties and responsibilities as directors provided by external professional advisors that includes written materials, oral presentations and meetings with senior management team. New directors would also receive a directors' handbook on their responsibilities under the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. Trainings have been and will continue to be provided by external advisors on a regular basis in relation to any updates of laws and regulations (including the Listing Rules) which relate to the director's responsibilities.

Maintaining a high level of corporate governance and integrity cannot depend solely on the Board's efforts, each of the Group's employees is also required to contribute to such cause. The Company thus distributes a code of conduct policy which emphasises on honesty and respect is distributed to all employees and forms part of their service contracts.

In addition, the Board has adopted various practices to bring the Group to a high level of corporate governance and in compliance with the CG Code.

To stay abreast of the high level of corporate governance and maintain transparency of our corporate governance practices, we have continued to adopt and foster the following corporate governance practices:

- review of the Shareholders Communication Policy on a regular basis
- formulation and implementation of the Board Diversity Policy which was approved by the Board on 14 August 2013
- trainings have been and will continue to be provided to directors on a timely basis, including briefing the directors on any updates to the Listing Rules and the laws
- Company Secretary attends trainings in compliance with the Listing Rules requirements
- informal updates and structured monthly updates on the Company's performance, position and prospects are provided to the directors
- adoption of the Insider Dealing Policy and Disclosure of Inside Information Policy in accordance with SFO and Listing Rules. Both policies were approved by the Board on 11 January 2013

Chairman and CEO

Mr Ma Huateng serves as the Chairman and CEO of the Company. This is at variance with code provision A.2.1 of the CG Code, which provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

In view of the ever-changing business environment in which our Group operates, the Chairman and CEO must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board thus considers that a segregation of the role of the Chairman and CEO may create unnecessary costs for the daily operation of the Group.

Besides, all major decisions have been made in consultation with members of the Board and appropriate Committees, as well as the senior management team. Chief officers and senior executives are invited to attend Board meetings from time to time to make presentations and answer Board's enquiries. In addition, directors are encouraged to participate actively in all Board and Committee meetings of which they are members, and the Chairman ensures that adequate time is available for discussion for all items. During the year ended 31 December 2013, the Chairman held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of the executive directors, presenting diversified perspectives for the Chairman to consider.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes at an appropriate time.

Composition

As at the date of this annual report, the Board comprised a total of eight directors, with three executive directors, two non-executive directors and three independent non-executive directors. During the year ended 31 December 2013 and up to the date of this annual report, there is no change to the composition of the Board.

A list of directors and their respective biographies are set out on pages 39 to 42 of this annual report.

In order for the Group to take advantage of the skills, experiences and diversity of perspective and in order for the directors to ensure that they give sufficient time and attention to the Group's affairs, we request the directors to disclose to the Company quarterly the number and the nature of offices held in public companies or organisations and other significant commitments. The Board's composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board. The Board believes that the balance between the executive directors and non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the shareholders and the Group.

The Board values the importance of independent judgment and advice provided by non-executive directors to safeguard the interests of the shareholders. The non-executive directors contribute diversified qualifications and experience to the Group by expressing their views and actively participate in Board and Committee meetings and to bring independent judgment and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, with the shareholders' interests being the utmost important factor. Further, in compliance with Rule 3.10 of the Listing Rules, one of our independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise, who provides valuable advice from time to time to the Board. The Company has also received from each independent non-executive director a confirmation annually of his independence and the Nomination Committee of the Company has conducted an annual review and considers that all independent non-executive directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive director. Mr Ian Charles Stone was re-elected as an independent non-executive director in the 2013 annual general meeting.

As part of our corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, independent non-executive directors are identified as such in all corporate communications containing the names of the directors. In addition, an updated list of directors identifying the independent non-executive directors and the roles and functions of the directors is maintained on the Company Website and the Stock Exchange's website.

Appointments, Re-election and Removal

The Board is the core of the Group's success, and with the right membership of the Board, we can benefit from the right set of skills, experience and diversity of perspective to take the Company forward. Therefore, it is essential for the Company to maintain the established formal, considered and transparent procedure for the appointment of new directors to the Board. It is our corporate governance practice and in accordance with the Articles of Association that all directors (except for the Chairman) should be subject to re-election at regular intervals and the resignation and removal of any director should be explained with reasons. In the 2013 annual general meeting, Mr Zhang Zhidong and Mr Ian Charles Stone were retired and re-elected; so did Mr Jacobus Petrus Bekker, who was re-elected in accordance with Article 86(3) of the Articles of Association.

Code provision A.4.2 of CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Since the Chairman, in accordance with the Articles of Association, whilst holding such office is not subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year, code provision A.4.2 of CG Code is deviated. The Chairman is one of the founders of the Group and he plays a key role in the growth and development of the Group. At present, the Chairman's continuing presence in the Board is vital to assure sustainable development of the Group. Given the importance of the Chairman's role in the development of the Group, the Board considers that the relevant provision in the Articles of Association has no material impact on the operation of the Group as a whole.

As Mr Charles St Leger Searle, who was re-elected in 2010 annual general meeting, was not considered at the 2013 annual general meeting, code provision A.4.2 of CG Code is deviated. Mr Charles St Leger Searle's re-election will be considered at the AGM. The Board considers that such deviation from code provision A.4.2 of CG Code does not have any material impact on the operation of the Group as a whole.

Board Activity

The Board meets four times during the year as a minimum and, during the year of 2013, it met seven times. The attendance of each director at Board and Committee meetings, whether in person or by means of electronic communication, is detailed in the table below:

	Attendance/No. of Board or Committee Meetings				
Name of Director	**Board**	**Audit Committee**	**Corporate Governance Committee**	**Nomination Committee**	**Remuneration Committee**
Executive directors					
Ma Huateng	7/7			1/1	
Lau Chi Ping Martin	7/7				
Zhang Zhidong	7/7				
Non-executive directors					
Jacobus Petrus Bekker	7/7				4/4
Charles St Leger Searle	7/7	5/5	2/2	1/1	
Independent non-executive directors					
Li Dong Sheng	5/7			0/1	1/4
Iain Ferguson Bruce	7/7	5/5	2/2	1/1	
Ian Charles Stone	7/7	5/5	1/2	1/1	4/4

At the Board meetings, the Board discussed on a wide range of matters, including the Group's overall strategies, financial and operational performances, approved the annual, interim and quarterly results of the Group, the appointments of director, business prospects, regulatory compliance and corporate governance, and other significant matters. The Company Secretary, in consultation with the Chairman and the senior management team, prepares the agendas for each meeting and all directors are given the opportunity to include matters for discussion in the agenda. The Company Secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. The Company Secretary sends the agendas, board papers and relevant information relating to the Group to each of the directors at least three days in advance of each Board meeting and Committee meetings, and to keep the directors updated on the Group's financial performance and latest developments. If any director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. If there is a potential conflict of interest involving a substantial shareholder or a director, such director would declare his interest and will abstain from voting on such matters. The directors may approach the Company's senior management team when necessary. The directors may also retain independent professional advisors at the Company's expense if necessary.

The Company Secretary ensures that there is a good and timely flow of information to the Board. The Company Secretary is responsible for taking minutes of all Board and Committee meetings. The directors receive the draft minutes for comments shortly after each meeting and final minutes are available for review and inspection by the directors at any time.

THE COMMITTEES

As described above, the Board has established five Committees which have delegated responsibilities and report back to the Board: the Audit Committee, the Corporate Governance Committee, the Investment Committee, the Nomination Committee, and the Remuneration Committee. The roles and functions of these Committees are set out in their respective terms of reference. All relevant terms of reference (except for the Investment Committee) are available on the Company Website and the Stock Exchange's website.

Audit Committee

The Audit Committee comprises only non-executive directors. Its members are Mr Iain Ferguson Bruce, Mr Ian Charles Stone (both are independent non-executive directors) and Mr Charles St Leger Searle. Mr Iain Ferguson Bruce chairs the Audit Committee and together with Mr Charles St Leger Searle, have appropriate professional qualifications and experiences in financial matters.

The Audit Committee meets not less than twice a year; in 2013 the Audit Committee met five times. Individual attendance of each Audit Committee member is set out on page 61. In addition to the members of the Audit Committee, meetings were attended by the Chief Financial Officer, the Head of Internal Audit and the Head of Internal Control and the external auditor at the invitation of the Audit Committee.

The Audit Committee's main work during the year 2013 included reviewing:

- the 2012 annual report, including the Corporate Governance Report, Directors' Report and the financial statements, as well as the related results announcement
- the 2013 interim report and interim results announcement
- the 2013 first and third quarters results announcement
- compliance with the CG Code, the Listing Rules and relevant laws
- in relation to the external auditor, their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement
- the plans (including those for 2013), resources and work of the Company's internal auditors
- the adequacy of resources, qualification and training of the Group's Finance Department
- the effectiveness of the Company's financial reporting system, the system of internal controls in operation, risk management system and associated procedures within the Group

PricewaterhouseCoopers ("PwC") is the Group's external auditor. The Audit Committee annually reviews the relationship the Company has with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied about this relationship. As such, the Audit Committee has recommended their reappointment at the forthcoming AGM.

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle, Mr Iain Ferguson Bruce and Mr Ian Charles Stone (both are independent non-executive directors). The Corporate Governance Committee is chaired by Mr Charles St Leger Searle.

The Corporate Governance Committee met twice in 2013. Individual attendance of each Corporate Governance Committee member is set out on page 61.

During 2013, the Corporate Governance Committee discussed on the arrangements made for directors to attend training sessions as well as reviewed the Company's corporate governance matters, and, in light of the changes to the Listing Rules and CG Code, made recommendations to the Board.

Investment Committee

The Investment Committee comprises a majority of executive directors. Its members are Mr Lau Chi Ping Martin, Mr Ma Huateng, Mr Zhang Zhidong and Mr Charles St Leger Searle. The Investment Committee is chaired by Mr Lau Chi Ping Martin.

The Investment Committee met twice in 2013, during which the Investment Committee had discussed and approved various acquisitions and disposals by the Group and had considered and passed resolutions on its decisions on the Group's acquisitions and disposals.

Nomination Committee

The Nomination Committee comprises a majority of independent non-executive directors. Its members are Mr Ma Huateng, Mr Li Dong Sheng, Mr Iain Ferguson Bruce, Mr Ian Charles Stone and Mr Charles St Leger Searle. The Nomination Committee is chaired by Mr Ma Huateng.

The Nomination Committee met once in 2013. Individual attendance of each Nomination Committee member is set out on page 61.

During 2013, the Nomination Committee reviewed board composition and director succession, and had adopted the Board Diversity Policy in compliance with the CG Code. The Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. As such, the Board has set measurable objectives for the implementation of the Board Diversity Policy to ensure that the Board has the appropriate balance of skills, experience and diversity of perspective that are required to support the execution of its business strategy and in order for the Board to be effective. The Nomination Committee is satisfied that the Board Diversity Policy is successfully implemented with reference to the measurable objectives. The Nomination Committee will continue to monitor the implementation of the Board Diversity Policy and will review the Board Diversity Policy periodically to ensure its continued effectiveness.

The Nomination Committee's amended terms of reference were approved and effective on 14 August 2013 to ensure they continue to meet the needs of the Company and to ensure compliance with the CG Code.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors. Its members are Mr Ian Charles Stone, Mr Li Dong Sheng (both are independent non-executive directors) and Mr Jacobus Petrus Bekker. Mr Ian Charles Stone chairs the Remuneration Committee.

The Remuneration Committee met four times in 2013. Individual attendance of each Remuneration Committee member is set out on page 61.

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of each member of the senior management team and make recommendations to the Board on the remuneration packages of each director.

During 2013, the Remuneration Committee:

- reviewed and recommended to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with similar scale to ensure that the Company's remuneration packages is competitive to recruit the best talents in the industry and to retain key staffs
- assessed performance and, reviewed and approved amendments to the remuneration packages for the executive directors and members of the senior management team
- reviewed and approved compensation awards granted to senior management team, to recognise their valuable contributions to the Company and to provide incentives for future performances

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual and his associates were involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategy. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles.

In respect of non-executive directors, the Remuneration Committee has reviewed fees payable taking into account the particular nature of their duties, relevant guidance available and the requirements of the Listing Rules.

ACCOUNTS, RISKS AND INTERNAL CONTROL

As part of the Board's responsibility, the Board ensures that a balanced and clear assessment of the Group's performance and prospects are presented. The directors acknowledge that it is their responsibility to prepare the accounts that give a true and fair view of the Group's financial position on a going-concern basis and other announcements and financial disclosures. To assist the Board in discharging its responsibilities, the senior management team provides updates to the Board from time to time, including the Group's business and financial position, to give the directors a balanced and understandable assessment of the performance, position and prospects of the Group. The senior management team also provides all necessary and relevant information to the Board, giving the directors sufficient explanation and information it needs to discharge their responsibilities. The Company auditor's statement in respect of their reporting responsibilities is set out in the Auditor's Report.

The Board also has the responsibility to oversee the risks undertaken by the Group, and to actively consider, analyse and formulate strategies to control the risks the Group is exposed to, and determines the level of risk the Company wishes to and is able to take. The senior management team monitors these risks and develops effective systems and mechanisms to mitigate risks to an acceptable level as determined by the Board. The senior management team reports to the Board periodically and whenever necessary on the risks the Group faces and the actions taken to mitigate them.

An adequate and effective internal control system is key to mitigate risk and to safeguard shareholders' interests and the Group's assets against any unauthorised use or disposition. The internal control system should also ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and to ensure that the Group is in compliance with relevant legislation and regulations. The Board is responsible for maintaining such internal control system. The Board has established a set of procedures to provide effective internal controls, which includes:

- establishing a distinct organisational structure with defined lines of authority and control responsibilities. Relevant group, division or department heads actively participate in the preparation of strategic plans for achieving annual operational and financial targets. These plans serve as the foundation for the preparation of the Group's annual budget by which resources are allocated in accordance with identified and prioritised business opportunities. The Board approves the annual operating plan and budget on an annual basis
- if there are any variances against the annual budget, these variances will be analysed and actions will be taken if necessary to rectify any deficiencies noted
- IA performs independent review of the operational areas and presents its findings and prospective audit plan to the Audit Committee on a quarterly basis
- IC facilitates the senior management team to ensure controls in operational processes are efficient and effective, and regularly communicates with the Audit Committee

The IA and IC provide valuable support to the Company's internal control system. The IA reviews different business and functional operations and activities of the Group with a special focus on high risk areas. The IA also conducts ad hoc reviews in areas of concern identified by the senior management team. If the IA identifies any deficiencies, the relevant group, division or department heads will be notified on such deficiencies and will be rectified, following up with the implementation of audit recommendations. If the IA considers that the deficiency is a significant internal control weakness, such matter will be brought to the attention of the Audit Committee and the Board if necessary. The IC oversees the overall risk management and the effectiveness of internal control based on the COSO Framework. The IC also provides advice on the setting up and implementation of policies and processes to promote effective internal control. The overall risk management and internal control status will be reported to the Audit Committee.

The Audit Committee reviews the internal control system annually on behalf of the Board. The Board is satisfied that the Company's accounting and financial reporting function is adequately resourced with staff of appropriate qualifications and experience, and they receive appropriate and sufficient training and development. Based on the report from the Audit Committee, the Board is satisfied that the Company's internal audit function is adequately resourced to manage the Group's risks and safeguard the Group's assets, and that the external audit process has been effective. The Board, with the recommendation of the Audit Committee, is satisfied that the Group has complied with the provisions regarding internal controls as required under the CG Code and is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the internal control system.

SHAREHOLDERS

The Company strives to provide ready, equal, regular and timely disclosure of information that is material to the investor community. Therefore, the Company works to maintain effective and on-going communication with shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, business and financial information. The Company also encourages shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, the Company has developed and maintains the Shareholders Communication Policy which is available on the Company Website.

The Company's general meetings provide a transparent and open platform for the Company's shareholders to communicate with the Board. The Chairman, other members of the Board and relevant members of the senior management team, under usual circumstances, attend to answer questions raised and discuss matters in relation to the Company in an open manner. All directors attended the 2013 annual general meeting. The Company's external auditor will also attend the annual general meeting to answer questions relating to the conduct of the audit, the auditor's report and auditor independence. The Company's shareholders may also propose candidates for election as a director of the Company according to the procedures set out in the Company Website.

Pursuant to the Articles of Association, any one or more shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

In order to ensure that shareholders' interests and rights are adequately protected, separate resolutions will be proposed for each substantially separate issue at the general meetings, and all resolutions will be voted by poll pursuant to the Articles of Association and the Listing Rules. To ensure the shareholders are familiar with the detailed procedures for conducting a poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from shareholder on the voting procedures can be answered before the poll voting started. An external scrutineer will be appointed to monitor and count the votes cast by poll. Poll results will be posted on the Company Website and the Stock Exchange's website after each general meeting.

Apart from participating in the Company's general meetings, the Company's shareholders are provided with contact details of the Company, such as telephone number, email address and postal address which are also available on the Company Website, in order to enable them to make any query that they may have. Shareholders may send their enquiries to the Board directly through these means. Shareholders may also contact the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, if they have any enquiries about their shareholdings and entitlements to dividends.

DISCLOSURES OF OTHER INFORMATION

The Company is required to disclose certain information pursuant to the Listing Rules and the CG Code. We set out these information below which has not been covered above.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for securities transactions by the directors. The Company has also adopted a securities trading code for employees for securities transactions by employees who are likely to be in possession of insider information relating to the Company, the terms of which are no less exact than those of the Model Code. The Company has made specific enquiries with the directors and the directors have confirmed they have complied with the Model Code throughout 2013.

Appointment Terms of Non-Executive Directors

Each non-executive director, whether independent or not, is appointed for a term of one year and is subject to retirement by rotation at least once every three years. A director appointed to fill a casual vacancy or as an addition to the Board will be subject to re-election by shareholders at the first general meeting after his appointment.

Directors and Officers Liability Insurance

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the directors.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 70. During the year ended 31 December 2013, the remuneration paid/payable to the Company's external auditor, PwC, was RMB18 million and RMB11 million for audit services and non-audit services respectively. The non-audit services conducted by the external auditor include providing professional service on internal control, mergers and acquisitions, tax issues and other relevant services.

Independent Auditor's Report

羅兵咸永道

To the shareholders of Tencent Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 72 to 187, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2014

Consolidated Statement of Financial Position

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	**RMB'Million**	RMB'Million
ASSETS			
Non-current assets			
Fixed assets	6	**8,693**	7,403
Construction in progress	7	**2,041**	534
Investment properties		**–**	22
Land use rights	8	**871**	794
Intangible assets	9	**4,103**	4,719
Interests in associates	11	**12,170**	7,310
Investment in joint ventures		**9**	35
Deferred income tax assets	28	**431**	169
Available-for-sale financial assets	13	**12,515**	5,633
Prepayments, deposits and other assets	16	**1,296**	1,236
Term deposits	17	**11,420**	10,892
		53,549	38,747
Current assets			
Inventories	14	**1,384**	568
Accounts receivable	15	**2,955**	2,354
Prepayments, deposits and other assets	16	**5,365**	3,878
Term deposits	17	**19,623**	13,806
Restricted cash	23	**4,131**	2,520
Cash and cash equivalents	18	**20,228**	13,383
		53,686	36,509
Total assets		**107,235**	75,256

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	As at 31 December 2013 RMB'Million	As at 31 December 2012 RMB'Million
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	**–**	–
Share premium	19	**2,846**	2,880
Shares held for share award schemes	19	**(871)**	(667)
Other reserves	20	**3,746**	816
Retained earnings		**52,224**	38,269
		57,945	41,298
Non-controlling interests		**518**	850
Total equity		**58,463**	42,148
LIABILITIES			
Non-current liabilities			
Borrowings	25	**3,323**	2,106
Long-term notes payable	26	**9,141**	7,517
Deferred income tax liabilities	28	**1,441**	1,312
Long-term payables	24	**1,600**	1,508
		15,505	12,443

Consolidated Statement of Financial Position

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	**RMB'Million**	RMB'Million
Current liabilities			
Accounts payable	22	**6,680**	4,212
Other payables and accruals	23	**10,246**	6,301
Borrowings	25	**2,589**	1,077
Current income tax liabilities		**1,318**	420
Other tax liabilities	37(b)	**593**	540
Deferred revenue	27	**11,841**	8,115
		33,267	20,665
Total liabilities		**48,772**	33,108
Total equity and liabilities		**107,235**	75,256
Net current assets		**20,419**	15,844
Total assets less current liabilities		**73,968**	54,591

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 187 were approved by the Board of Directors on 19 March 2014 and were signed on its behalf:

Ma Huateng
Director

Zhang Zhidong
Director

Statement of Financial Position – The Company

As at 31 December 2013

	Note	As at 31 December 2013 RMB'Million	2012 RMB'Million
ASSETS			
Non-current assets			
Intangible assets		**21**	10
Investments in subsidiaries	10(a)	**10,684**	9,419
Contribution to Share Scheme Trust	10(d)	**2**	12
		10,707	9,441
Current assets			
Amounts due from subsidiaries	10(c)	**4,934**	4,906
Prepayments, deposits and other receivables		**114**	25
Cash and cash equivalents	18	**346**	166
		5,394	5,097
Total assets		**16,101**	14,538
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	19	**–**	–
Share premium	19	**2,846**	2,880
Shares held for share award schemes	19	**(871)**	(667)
Retained earnings		**2,295**	2,456
Total equity		**4,270**	4,669

Statement of Financial Position – The Company

As at 31 December 2013

		As at 31 December	
		2013	2012
	Note	**RMB'Million**	RMB'Million
LIABILITIES			
Non-current liabilities			
Long-term notes payable	26	**9,141**	7,517
Current liabilities			
Amounts due to subsidiaries	10(c)	**2,632**	2,308
Other payables and accruals		**58**	44
		2,690	2,352
Total liabilities		**11,831**	9,869
Total equity and liabilities		**16,101**	14,538
Net current assets		**2,704**	2,745
Total assets less current liabilities		**13,411**	12,186

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 187 were approved by the Board of Directors on 19 March 2014 and were signed on its behalf:

Ma Huateng
Director

Zhang Zhidong
Director

Consolidated Income Statement

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'Million	2012 RMB'Million
Revenues			
Value-added services		**44,985**	35,718
Online advertising		**5,034**	3,382
eCommerce transactions		**9,796**	4,428
Others		**622**	366
	5	**60,437**	43,894
Cost of revenues	29, 32	**(27,778)**	(18,207)
Gross profit		**32,659**	25,687
Interest income	30	**1,314**	836
Other gains/(losses), net	31	**904**	(284)
Selling and marketing expenses	32	**(5,695)**	(2,994)
General and administrative expenses	32	**(9,988)**	(7,766)
Operating profit		**19,194**	15,479
Finance costs, net	36	**(84)**	(348)
Share of profit/(losses) of associates		**213**	(54)
Share of losses of joint ventures		**(42)**	(26)
Profit before income tax		**19,281**	15,051
Income tax expense	37(a)	**(3,718)**	(2,266)
Profit for the year		**15,563**	12,785
Attributable to:			
Equity holders of the Company		**15,502**	12,732
Non-controlling interests		**61**	53
		15,563	12,785

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013	2012
		Year ended 31 December	
		RMB'Million	RMB'Million
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	39(a)	**8.464**	6.965
– diluted	39(b)	**8.298**	6.833
Dividend per share			
Final dividend proposed	40	**HKD1.20**	HKD1.00

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'Million	RMB'Million
Profit for the year	**15,563**	12,785
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates	**48**	–
Net gains from changes in fair value of available-for-sale financial assets	**2,825**	824
Currency translation differences	**(60)**	10
	2,813	834
Total comprehensive income for the year	**18,376**	13,619
Attributable to:		
Equity holders of the Company	**18,327**	13,567
Non-controlling interests	**49**	52
	18,376	13,619

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

	Attributable to equity holders of the Company							
	Share capital RMB' Million	Share premium RMB' Million	Shares held for share award schemes RMB' Million	Other reserves RMB' Million	Retained earnings RMB' Million	Total RMB' Million	Non-controlling interests RMB' Million	Total equity RMB' Million
Balance at 1 January 2013	–	2,880	(667)	816	38,269	41,298	850	42,148
Comprehensive income								
Profit for the year	–	–	–	–	15,502	15,502	61	15,563
Other comprehensive income:								
– share of other comprehensive income of associates	–	–	–	48	–	48	–	48
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	2,825	–	2,825	–	2,825
– currency translation differences	–	–	–	(48)	–	(48)	(12)	(60)
Total comprehensive income for the year	–	–	–	2,825	15,502	18,327	49	18,376
Transaction with owners								
Capital injection	–	–	–	–	–	–	5	5
Employee share option schemes:								
– value of employee services	–	58	–	62	–	120	9	129
– proceeds from shares issued	–	308	–	–	–	308	–	308
Employee share award schemes:								
– value of employee services	–	999	–	36	–	1,035	4	1,039
– shares purchased for share award schemes	–	–	(278)	–	–	(278)	–	(278)
– vesting of awarded shares	–	(74)	74	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	79	(79)	–	–	–
Repurchase and cancellation of shares	–	(1,325)	–	–	–	(1,325)	–	(1,325)
Dividends (Note 40)	–	–	–	–	(1,468)	(1,468)	(77)	(1,545)
Total contributions by and distributions to owners for the year	–	(34)	(204)	177	(1,547)	(1,608)	(59)	(1,667)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	2	2
Non-controlling interests arising from disposal of a subsidiary	–	–	–	–	–	–	(247)	(247)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(72)	–	(72)	(77)	(149)
Total transactions with owners for the year	–	(34)	(204)	105	(1,547)	(1,680)	(381)	(2,061)
Balance at 31 December 2013	–	2,846	(871)	3,746	52,224	57,945	518	58,463

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award scheme RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2012	–	1,951	(607)	409	26,710	28,463	625	29,088
Comprehensive income								
Profit for the year	–	–	–	–	12,732	12,732	53	12,785
Other comprehensive income:								
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	824	–	824	–	824
– currency translation differences	–	–	–	11	–	11	(1)	10
Total comprehensive income for the year	–	–	–	835	12,732	13,567	52	13,619
Transaction with owners								
Capital injection	–	–	–	–	–	–	22	22
Employee share option schemes:								
– value of employee services	–	95	–	59	–	154	22	176
– proceeds from shares issued	–	238	–	–	–	238	–	238
Employee share award schemes:								
– value of employee services	–	677	–	45	–	722	7	729
– shares purchased for share award schemes	–	–	(121)	–	–	(121)	–	(121)
– vesting of awarded shares	–	(61)	61	–	–	–	–	–
Profit appropriations to statutory reserves	–	–	–	65	(65)	–	–	–
Repurchase and cancellation of shares	–	(20)	–	–	–	(20)	–	(20)
Dividends	–	–	–	–	(1,108)	(1,108)	(117)	(1,225)
Total contributions by and distributions to owners for the year	–	929	(60)	169	(1,173)	(135)	(66)	(201)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	248	248
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(240)	–	(240)	(9)	(249)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	–	–	–	(357)	–	(357)	–	(357)
Total transactions with owners for the year	–	929	(60)	(428)	(1,173)	(732)	173	(559)
Balance at 31 December 2012	–	2,880	(667)	816	38,269	41,298	850	42,148

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	**RMB'Million**	RMB'Million
Cash flows from operating activities			
Cash generated from operations	41(a)	**27,492**	21,654
Income tax paid		**(3,118)**	(2,225)
Net cash flows generated from operating activities		**24,374**	19,429
Cash flows from investing activities			
Proceeds/(payments) for business combinations, net of cash acquired		**4**	(435)
Proceeds from disposal of subsidiary		**203**	–
Purchase of fixed assets, construction in progress and investment properties		**(4,788)**	(3,657)
Proceeds from disposals of fixed assets	41(a)	**17**	4
Payments for interests in associates		**(4,456)**	(3,668)
Payments for investment in joint ventures		**(9)**	–
Purchase/prepayment of intangible assets		**(1,200)**	(869)
Purchase/prepayment of land use rights		**(93)**	(313)
Purchase of available-for-sale financial assets		**(3,651)**	(557)
Proceeds from disposal of interests in associates		**155**	111
Payments for loan to associates		**(20)**	–
Payments for loan to joint ventures		**(38)**	(34)
Receipt from maturity of term deposits with initial term of over three months		**15,950**	18,532
Placement of term deposits with initial term over three months		**(22,295)**	(29,513)
Refund of restricted cash		**–**	3,063
Interest received		**536**	626
Dividends received		**551**	440
Net cash flows used in investing activities		**(19,134)**	(16,270)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	**2,320**	982
Repayment of short-term borrowings	**(986)**	(8,024)
Payment for derivative financial instruments in relation to short-term borrowings	**–**	(42)
Proceeds from long-term borrowings	**2,846**	2,215
Repayment of long-term borrowings	**(1,328)**	–
Net proceeds from issuance of long-term notes	**1,847**	3,768
Proceeds from issuance of ordinary shares	**308**	238
Payments for repurchase of shares	**(1,325)**	(20)
Payments for purchase of shares for share award schemes	**(278)**	(121)
Proceeds from capital injection from non-controlling interests	**5**	22
Dividends paid to the Company's shareholders	**(1,468)**	(1,108)
Dividends paid to non-controlling interests	**(73)**	(117)
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(160)**	(179)
Net cash flows generated from/(used in) financing activities	**1,708**	(2,386)
Net increase in cash and cash equivalents	**6,948**	773
Cash and cash equivalents at beginning of the year	**13,383**	12,612
Exchange losses on cash and cash equivalents	**(103)**	(2)
Cash and cash equivalents at end of the year	**20,228**	13,383

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Tencent Holdings Limited (the "Company") was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of Internet and mobile value-added services ("VAS"), online advertising services and eCommerce transactions services to users in the People's Republic of China (the "PRC").

The operations of the Group were initially conducted through Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer"), a limited liability company established in the PRC by certain shareholders of the Company on 11 November 1998. Tencent Computer is legally owned by the core founders of the Company who are PRC citizens (the "Registered Shareholders").

The PRC regulations restrict foreign ownership of companies that provide value-added telecommunications services, which include activities and services operated by Tencent Computer. In order to enable certain foreign companies to make investments into the business of the Group, the Company established a subsidiary, Tencent Technology (Shenzhen) Company Limited ("Tencent Technology"), which is a wholly foreign owned enterprise incorporated in the PRC, on 24 February 2000. The foreign investors of the Company then subscribed to additional equity interest in the Company.

Under a series of contractual arrangements (collectively, "Structure Contracts") entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, recognise and receive substantially all the economic benefits of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

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

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.2(a) and Note 10) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

The consolidated financial statements of the Group have been approved for issue by the board of directors of the Company (the "Board") on 19 March 2014.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures

(a) New standards, revised standards and amendments to standards adopted by the Group

The following new standards, revised standards and amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The Group has applied this amendment from 1 January 2013 and present the OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently.
- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group has applied this revised standard from 1 January 2013 and management considered that this revised standard does not have any impact on the Group's consolidated financial statements as it does not have a defined benefit plan.
- Amendment to IFRS 1, 'First time adoption', on government loans. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The Group has applied this revised standard from 1 January 2013 and management considered that this revised standard does not have any impact on the Group's consolidated financial statements as it does not have any government loans.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(a) New standards, revised standards and amendments to standards adopted by the Group (Cont'd)

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. The amendment require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group has not entered into any netting arrangement and management of the Group considered that the adoption of amendment to IFRS 7 does not have a significant impact on the Group's consolidated financial statements.

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has applied this revised standard from 1 January 2013 and such adoption does not have a significant impact on the Group's consolidated financial statements.

- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint ventures is no longer permitted. The Group has applied this revised standard from 1 January 2013 and management considered that this standard does not have a significant impact on the Group's consolidated financial statements.

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The Group has applied this standard on disclosures in its consolidated financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(a) New standards, revised standards and amendments to standards adopted by the Group (Cont'd)

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The adoption of this standard only affects disclosures on financial assets and financial liabilities in the Group's consolidated financial statements.
- The Group also adopted the IASB's improvements to IFRS published in June 2011, which are relevant to the Group and effective from 1 January 2013. Such amendments have no significant impact to the consolidated financial statements of the Group.

The Group has early adopted Amendment to IAS 36, 'Impairment of assets' for the first time for the consolidated financial statements.

Amendment to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014. However the Group has decided to early adopt the amendment from 1 January 2013 and such adoption does not have a significant impact on the Group's consolidated financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(b) New standards, amendments to standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretation are not effective for the financial year beginning 1 January 2013, and have not been early adopted by the Group in preparing these consolidated financial statements.

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting. This amendment relates to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is yet to assess the full impact of Amendment to IAS 32 and intends to adopt this amendment no later than the accounting period beginning on or after 1 January 2014.
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement'–'Novation of derivatives'. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The Group is yet to assess the full impact of Amendment to IAS 39 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2014.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

Changes in accounting policy and disclosures (Cont'd)

(b) New standards, amendments to standards and interpretation not yet adopted (Cont'd)

- Amendments to IFRS 10, 12 and IAS 27, 'Consolidation for investment entities'. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make. The Group is yet to assess the full impact of Amendments to IFRS 10, 12 and IAS 27 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2014.

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is yet to assess the full impact of IFRIC 21 and intends to adopt this interpretation no later than the accounting period beginning on or after 1 January 2014.

- IASB's improvements to IFRS published in May and November 2012. In May and November 2012, IASB published its annual improvements projects, which made some amendements to IFRSs to clarify some accounting treatments/disclosure requirements under new/revised IFRSs and eliminate inconsistency. These improvements are not effective for financial year beginning 1 January 2013. Management does not expect these amendments to have a significant impact on the Group's consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective and would be expected to have a significant impact on the Group.

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Partial disposals

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value at the date when control or significant influence is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint ventures or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income in respect of that entity are reclassified to the income statement.

(b) Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 10(d)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust" first, and then will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition for the shares of the Company.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(b) Separate financial statements (Cont'd)

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in "Other gains/(losses), net" in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The change in accounting policy has been applied as from 1 January 2013.

The change in accounting policy has had no significant impact on the Group's consolidated financial statements.

The Group determines at each reporting date whether there is any objective evidence that investments in joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint ventures and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.

2.5 Investment in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture; is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when it becomes associates/joint ventures. A gain or loss on re-measurement of the previously held interest is taken to the consolidated income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is both the functional currency of the Company and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognised in the consolidated income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Fixed assets

All fixed assets are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 - 50 years
Computer equipment	3 - 5 years
Furniture and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in "Other gains/(losses), net" in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to allocate their costs to their residual values over their estimated useful lives of 50 years.

Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.10 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the income statement on a straight-line basis over the remaining period of the lease or capitalised in construction in progress upon completion of construction.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.11 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Licensed online contents

The licensed online contents mainly include video contents. They are initially recognised and measured at cost. Licensed online contents are amortised using an accelerated method based on estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include licence, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally two to seven years) using the straight-line method reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.12 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 10(d)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award schemes", with a corresponding adjustment to "Share premium".

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise "Accounts receivable", "Deposits and other receivables", "Loans to associates", "Term deposits", "Restricted cash" and "Cash and cash equivalents" in the statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.14 Financial assets (Cont'd)

(b) Recognition and measurement

Regular way purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale financial assets equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Impairment of financial assets (Cont'd)

(b) Assets classified as available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The derivative instruments, which do not qualify for hedge accounting, are accounted for at fair value through profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement in "Other gains/(losses), net".

2.18 Inventories

Inventories, mainly consisting of merchandise available for sale, are primarily accounted for using the weighted average method and are stated at the lower of cost and net realisable value.

2.19 Accounts receivable

Accounts receivable are amounts due from customers or agents for merchandise sold or services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.20 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with initial maturities of three months or less.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury share), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.22 Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.23 Put option liabilities

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase its own equity instruments for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially debited to equity at fair value. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as income or expenses in the income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified as equity.

The put option liabilities are current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

2.24 Borrowings and long-term notes

Borrowings and long-term notes issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over their period using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Long-term notes payable are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using an option-pricing model – Black-Scholes valuation model (the "BS Model"), which includes the impact of market performance conditions (such as the Company's share price) but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

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

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognised in the consolidated financial statement, are treated as part of the "Investments in subsidiaries" in the Company's statement of financial position.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.26 Employee benefits (Cont'd)

(c) Share-based compensation benefits (Cont'd)

At each reporting period end, the Group and the Company revise their estimates of the number of options and awarded shares that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the consolidated income statement of the Group and in the "Investments in subsidiaries" of the Company, with a corresponding adjustment made to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.28 Revenue recognition

The Group principally derives revenues from provision of VAS, online advertising services and eCommerce transactions services in the PRC.

(a) VAS

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(a) VAS (Cont'd)

The VAS can be paid by way of prepaid cards and tokens (represented a specific amount of payment unit) sold by the Group through channels such as sales agents appointed by the Group, telecommunication operators, broadband service providers, Internet cafes and banks. The end users can register the prepaid cards and tokens to their user accounts in the Group's platforms and then access the Group's online products or relevant services. Receipts from the sales of prepaid cards and tokens are deferred and recorded as "Deferred revenue" in the statement of financial position (see Note 27). The amounts are then recognised as revenue based on the actual utilisation of the payment unit: (i) when the payment unit is used to purchase services, the revenue is recognised when the related services are rendered; (ii) when the payment unit is used to purchase virtual products/items in the Group's Internet platforms, the revenue is recognised over the estimated lifespan of the respective virtual products/items or over the expected user relationship.

Certain VAS are directly delivered to the Group's customers through the platforms of various subsidiaries of telecommunication operators in the PRC, namely China Mobile Communications Corporation ("China Mobile"), China United Network Communications Group Company Limited ("China Unicom") and China Telecommunications Corporation ("China Telecom"). These operators collect the relevant service fees (the "Internet and Mobile Service Fees") on behalf of the Group and are entitled to certain percentages commission fee (defined as "Mobile and Telecom Charges"). The Mobile and Telecom Charges are withheld and deducted from the gross Internet and Mobile Service Fees collected by the operators from the users, with the net amounts remitted to the Group. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis and treats the Mobile and Telecom Charges as cost of revenues.

The Group also opens its Internet platforms to third-party game/application developers through entering into cooperation agreements with them. The games/applications designed, developed and hosted by these developers are made available to the users on the Group's Internet and mobile platforms. The developers are primarily responsible for the obligations under the games/applications to the end users. Under the terms of these cooperation agreements, the Group pays the developers a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in these games/applications. The Group recognises the related revenue on a net basis because it acts as an agent in the arrangements. The Group also defers the related revenue over an the estimated lifespan of the respective virtual products/items or over the expected user relationship periods as there is an implicit obligation of the Group to maintain and allow access of the users of the games/applications operated by the developers through its platforms.

Revenues derived from these arrangements are presented as revenue from VAS in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Revenue recognition (Cont'd)

(b) Online advertising

Online advertising revenues are mainly derived from display advertisements to instant messaging clients, and on portals, social networks and other platforms operated by the Group. It also includes income derived from performance based advertisements in which the revenue is linked to actual performance measurement. Commissions payable to advertising agencies are recognised as a component of the cost of revenues.

For brand display advertising, advertising contracts with terms within one year are entered into with the advertisers and their advertising agencies and revenues are recognised ratably over the period in which the advertisements are displayed.

For performance based advertising, the Group introduces Internet users to its advertisers mainly through its performance based pay-for-click systems and charges advertisers on a per click basis when the users click on the displayed links. Revenue for performance based advertising is primarily recognised on a per click basis when the users click on the displayed links.

(c) eCommerce transactions

Revenues derived from eCommerce transactions business of the Group primarily arise from sales of merchandise through the Group's Internet platforms. The Group recognises revenues from merchandise sales and related costs on a gross basis when it acts as a principal. Following the guidance under IAS 18 'Revenue', whether the Group acts as a principal is based on a number of criteria, including whether it is a primary obligor, whether it is subject to inventory risk, whether it has latitude in establishing prices, whether it has latitude in selecting suppliers, in a transaction. When the Group is not a principal and is instead acting as an agent, revenues are recognised on a net basis which is based on a pre-determined percentage of the sales.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.33 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

2.34 Research and development expenses

Research expenditure is recognised as an expense as incurred.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Therefore, to maintain the flexibility in activities including payment of dividends, share repurchases and offshore investments and operations, the Group holds some monetary assets denominated in United Stated Dollar ("USD"), Hong Kong Dollar ("HKD"), Euro ("EUR"), Korea Won ("KRW") and New Taiwan Dollar ("TWD") subject to certain thresholds stated in its treasury mandate, and borrows some loans denominated in USD from time to time. This exposes the Group to foreign exchange risk.

There is no other written policy to manage the foreign exchange risk in relation to USD, HKD, EUR, KRW and TWD as management considers that such risk could not be effectively reduced in a low-cost way.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

As at 31 December 2013, the Group and the Company's non-RMB monetary assets and liabilities are listed below:

Group	Denomination currency	As at 31 December	
		2013	2012
		RMB'Million	RMB'Million
Monetary assets			
Non-current assets	USD	**43**	1
Current assets	USD	**4,099**	7,349
Current assets	HKD	**556**	285
Current assets	EUR	**1,351**	418
Current assets	KRW	**916**	470
Current assets	TWD	**28**	–
Monetary liabilities			
Non-current liabilities	USD	**12,784**	10,646
Current liabilities	USD	**4,260**	2,276
Current liabilities	HKD	**67**	23

Company	Denomination currency	As at 31 December	
		2013	2012
		RMB'Million	RMB'Million
Monetary assets			
Current assets	USD	**2,182**	1,278
Current assets	HKD	**2,752**	3,805
Monetary liabilities			
Non-current liabilities	USD	**9,141**	7,517

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

During the year ended 31 December 2013, the Group reported exchange gains of approximately RMB310 million (2012: exchange losses of approximately RMB21 million) as a result of RMB appreciation. The gains/losses were recorded in "Finance costs, net" in the consolidated income statement for the year ended 31 December 2013.

At 31 December 2013, if USD, EUR, HKD, KRW and TWD had strengthened/weakened by 5% (2012: 5%) against RMB with all other variables held constant, the profit before income tax for the year would have been approximately RMB506 million lower/higher (2012: RMB221 million lower/higher), mainly as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in USD, EUR, HKD, KRW and TWD.

(ii) Price risk

The Group is exposed to price risk because of investments held by the Group, classified as available-for-sale financial assets. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are either for the purpose of improving investment yield and maintaining high liquidity level simultaneously, or for strategic purpose. Each investment is managed by senior management on a case by case basis.

The available-for-sale financial assets are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2012: 5%) higher/lower as at 31 December 2013, the other comprehensive income would have been approximately RMB603 million (2012: RMB272 million) higher/lower.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk

The Group has interest-bearing assets including receivables in associates, term deposits with initial term of over three months and cash and cash equivalents, details of which have been disclosed in Notes 11, 17 and 18.

The Group's interest rate risk arises from borrowings and long-term notes issued by the Group. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings and long-term notes issued at fixed rates expose the Group to fair value interest rate risk. There is no other written policy on managing the interest rate risk and management is to minimise its impact on the income statement.

Other financial assets and liabilities do not have material interest rate risk.

For the year ended 31 December 2013, if the average interest rate on variable interest-bearing borrowings had been 5% (2012: 5%) higher/lower, the Group's profit before income tax for the year would have been approximately RMB3 million (2012: RMB5 million) lower/higher.

The Company had no variable interest-bearing liabilities.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits (including restricted cash) placed with banks and financial institutions, other investments, as well as accounts and other receivables.

The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

For accounts receivable, a large portion of Internet and Mobile Service Fees is derived from the co-operative arrangements with China Mobile, China Unicom and China Telecom. If the strategic relationship with the telecommunications operators is terminated or scaled-back; or if the telecommunications operators alter the co-operative arrangements; or if they experience financial difficulties in paying us, the Group's VAS might be adversely affected in terms of recoverability of receivables.

To manage this risk, the Group maintains frequent communication with the telecommunication operators to ensure the co-operation is effective. In view of the history of co-operation with the telecommunication operators and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these telecommunications operators is low (see Note 15 for details).

For accounts receivable from advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, past experience and other factors. Normally, prepayments representing a certain percentage of the total service fees for each advertising service are required.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's and the Company's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Group	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2013					
Long-term notes payable	**327**	**2,156**	**7,794**	**–**	**10,277**
Long-term payables	**–**	**1,197**	**308**	**206**	**1,711**
Borrowings	**2,689**	**2,217**	**1,171**	**–**	**6,077**
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	**13,651**	**–**	**–**	**–**	**13,651**
Total	**16,667**	**5,570**	**9,273**	**206**	**31,716**
At 31 December 2012					
Long-term notes payable	302	302	4,502	3,835	8,941
Long-term payables	–	284	1,151	195	1,630
Borrowings	1,160	244	1,964	–	3,368
Accounts payable, other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	8,216	–	–	–	8,216
Total	9,678	830	7,617	4,030	22,155

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

Company	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2013					
Long-term notes payable	**327**	**2,156**	**7,794**	**–**	**10,277**
Amounts due to subsidiaries	**2,632**	**–**	**–**	**–**	**2,632**
Other payables and accruals	**58**	**–**	**–**	**–**	**58**
Total	**3,017**	**2,156**	**7,794**	**–**	**12,967**
At 31 December 2012					
Long-term notes payable	302	302	4,502	3,835	8,941
Amounts due to subsidiaries	2,308	–	–	–	2,308
Other payables and accruals	44	–	–	–	44
Total	2,654	302	4,502	3,835	11,293

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total liabilities divided by total assets. The total capital is the "total equity" of the Group as shown in the consolidation statement of financial position, which is also equal to total assets less total liabilities.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management (Cont'd)

The gearing ratios as at 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Total liabilities	**48,772**	33,108
Total assets	**107,235**	75,256
Gearing ratio	**45%**	44%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value as at 31 December 2013:

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'Million	**RMB'Million**	**RMB'Million**	**RMB'Million**
Assets				
Available-for-sale financial assets				
– Equity securities (Note 13)	**6,245**	**3,495**	**2,775**	**12,515**

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's assets that are measured at fair value as at 31 December 2012:

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
Assets				
Available-for-sale financial assets				
– Equity securities	4,083	–	1,550	5,633

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2013:

	Available-for-sale financial assets RMB'Million
Opening balance	**1,550**
Additions	**1,251**
Impairment provision	**(26)**
Closing balance	**2,775**

The following table presents the changes in level 3 instruments for the year ended 31 December 2012:

	Available-for-sale financial assets RMB'Million
Opening balance	1,025
Additions	557
Transfer to interests in associates	(31)
Net gains recognised in other comprehensive income	54
Impairment provision	(55)
Closing balance	1,550

During the year ended 31 December 2013, total losses for the level 3 instruments held at the end of the reporting period were RMB26 million under "Other gains/(losses), net" (2012: total losses of RMB55 million).

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Valuation processes of the Group (Level 3)

The Group has a team that manages the valuation logistics of level 3 instruments for financial reporting purposes. The team manages the valuation logistics at least once every quarter, in line with the Group's quarterly reporting dates. On an annual basis, the team would also manage the valuation logistics, and use valuation techniques to determine the fair value of the Group's level 3 instruments by themselves.

The valuation of the level 3 instruments mainly included private funds and unlisted companies. As these investments are not traded in an active market, their fair value have been determined using discounted cash flow valuation techniques if applicable. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates and estimate of weighted average cost of capital (WACC), etc.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Recognition of revenues and accounts receivable related to VAS

For VAS delivered through the platforms of telecommunication operators, the Internet and Mobile Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and advised by these operators to the Group on a monthly basis. For those Internet and Mobile Service Fees not yet confirmed/advised by the operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on the historical data.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(a) Recognition of revenues and accounts receivable related to VAS (Cont'd)

As at 31 December 2013, the balance of accounts receivable to be confirmed by China Mobile, China Unicom and China Telecom and their branches, subsidiaries and affiliates was estimated to be RMB564 million (2012: RMB706 million).

Were the actual outcome to differ by 5% (2012: 5%) from management's estimates, the Group would need to:

- reduce the revenue and accounts receivable by RMB28 million (2012: RMB35 million) if unfavourable; or
- increase the revenue and accounts receivable by RMB28 million (2012: RMB35 million) if favourable.

(b) Recognition of share-based compensation expenses

As mentioned in Note 2.26(c), the Group has granted share options to its employees. The directors have used the BS Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the BS Model (Note 21).

There was no share option granted to employees in 2013. The fair value of options granted for the year ended 31 December 2012 determined using the BS Model was approximately HKD15 million (equivalent to approximately RMB12 million).

In addition, the Group granted awarded shares to its employees at an aggregate fair value of HKD1,615 million (equivalent to approximately RMB1,287 million) during 2013 (2012: HKD1,862 million (equivalent to approximately RMB1,520 million)).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(b) Recognition of share-based compensation expenses (Cont'd)

The Group has to estimate the expected yearly percentage of grantees of share options/awarded shares who will stay within the Group at the end of the vesting periods ("Expected Retention Rate of Grantees") in order to determine the amount of share-based compensation expenses charged into the income statement. As at 31 December 2013, the Expected Retention Rate of Grantees was assessed to be 91% (2012: 91%).

If the Expected Retention Rate of Grantees had been increased/decreased by 5% (2012: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB78 million (2012: RMB64 million).

(c) The estimates of the lifespan of virtual products/items provided in the Group's Internet and mobile platforms

As mentioned in Note 2.28(a), the end users purchase certain virtual products/items provided in the Group's Internet and mobile platforms and the relevant revenue is recognised based on the lifespan of the virtual products/items or the expected user relationship periods. The Group uses the available information, including the historical user pattern and behavior and the stipulated period of validity of the relevant virtual products/items, to estimate the lifespan of these products/items. The Group has adopted a policy of assessing the estimated lives of the permanent life virtual products/items on a timely basis.

The Group will continue to monitor the average lifespan of the virtual products/items (provided and to be provided), which may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis than in prior periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

4.1 Critical accounting estimates and assumptions (Cont'd)

(d) Income taxes

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

Were the actual final outcome (on the judgement areas) to differ by 5% from management's estimates, the Group would need to:

- Increase the income tax liabilities by RMB66 million (2012: RMB21 million) and the deferred tax liabilities by RMB72 million (2012: RMB66 million), if unfavourable; or
- Decrease the income tax liabilities by RMB66 million (2012: RMB21 million) and the deferred tax liabilities by RMB72 million (2012: RMB66 million), if favourable.

(e) Estimation of put option liabilities

The Group granted some put options to the non-controlling interest owners that they have the right to request the Group to repurchase their equity interests in certain non-wholly owned subsidiaries when certain conditions are met. The repurchase prices were determined by making reference to the revenue or profit to be generated by those subsidiaries in future periods. The Group will initially recognise a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows and the adjustments will be recognised as income or expenses in the income statement.

5 SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance and allocate resources, and determine the operating segments based on these reports.

In light of the increasing integration between the personal computer ("PC") and mobile Internet and the latest development of the Group's business, the Internet value-added services ("IVAS") and the mobile and telecommunications value-added services ("MVAS") segments have been combined into VAS segment and the revenue categories previously under IVAS and MVAS have been adjusted from 1 January 2013 onwards, both in the internal reports to the chief operating decision-makers and in the consolidated financial statements of the Group. The comparative figures have been restated to comply with the new presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

The Group has following reportable segments for the years ended 31 December 2013 and 2012:

– VAS;

– Online advertising;

– eCommerce transactions; and

– Others

Other segments of the Group mainly comprise of the provision of trademark licensing, software development services and software sales.

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit/(losses) of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for the operating segments as a whole and therefore they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance costs, net and income tax expense are also not allocated to individual operating segment.

5 SEGMENT INFORMATION (Cont'd)

There were no material inter-segment sales during the years ended 31 December 2013 and 2012. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in this annual report. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2013 and 2012 is as follows:

	Year ended 31 December 2013				
	VAS RMB'Million	Online advertising RMB'Million	eCommerce transactions RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	44,985	5,034	9,796	622	60,437
Gross profit	29,601	2,257	557	244	32,659
Depreciation	1,656	138	16	19	1,829
Amortisation	336	514	–	–	850
Share of profit/(losses) of associates	170	(27)	(53)	123	213
Share of losses of joint ventures	(42)	–	–	–	(42)

5 SEGMENT INFORMATION (Cont'd)

	Year ended 31 December 2012				
	VAS RMB'Million (Restated)	Online advertising RMB'Million	eCommerce transactions RMB'Million	Others RMB'Million	Total RMB'Million
Segment revenues	35,718	3,382	4,428	366	43,894
Gross profit	23,654	1,649	236	148	25,687
Depreciation	1,231	107	9	17	1,364
Amortisation	200	199	–	–	399
Share of (losses)/profit of associates	(85)	–	(33)	64	(54)
Share of losses of joint ventures	(26)	–	–	–	(26)

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. For the year ended 31 December 2013, the geographical information on the total revenues is as follows:

	2013 **RMB'Million**	2012 RMB'Million
Revenues		
– Mainland China	**55,978**	41,735
– Others	**4,459**	2,159
	60,437	43,894

5 SEGMENT INFORMATION (Cont'd)

The Group also conduct operations in United States, Europe and other regions, and holds financial instruments as investments which are traded in other territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Operating assets		
– Mainland China	**68,807**	51,535
– Others	**3,269**	3,174
Investments		
– Mainland China	**10,726**	4,818
– Hong Kong	**10,535**	6,382
– United States	**4,185**	2,938
– Europe	**6,235**	3,974
– Others	**3,478**	2,435
	107,235	75,256

As at 31 December 2013, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China were RMB20,848 million (2012: RMB14,987 million). Those located in other areas were RMB7,032 million (2012: RMB6,066 million).

All the revenues derived from any single external customer were less than 10% of the Group's total revenues for the year ended 31 December 2013.

Turnover consists of revenues generated by the Group, which were RMB60,437 million and RMB43,894 million for the years ended 31 December 2013 and 2012, respectively.

6 FIXED ASSETS

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2013						
Cost	2,358	8,227	414	32	586	11,617
Accumulated depreciation	(281)	(3,578)	(131)	(12)	(212)	(4,214)
Currency translation differences	–	(1)	1	–	–	–
Net book amount	2,077	4,648	284	20	374	7,403
Year ended 31 December 2013						
Opening net book amount	2,077	4,648	284	20	374	7,403
Business combinations	–	10	2	–	3	15
Other additions	442	3,095	140	16	286	3,979
Disposals	–	(168)	(6)	(1)	(2)	(177)
Depreciation	(116)	(2,128)	(86)	(6)	(148)	(2,484)
Currency translation differences	–	(42)	–	–	(1)	(43)
Closing net book amount	2,403	5,415	334	29	512	8,693
At 31 December 2013						
Cost	2,800	10,494	541	47	873	14,755
Accumulated depreciation	(397)	(5,036)	(208)	(18)	(360)	(6,019)
Currency translation differences	–	(43)	1	–	(1)	(43)
Net book amount	2,403	5,415	334	29	512	8,693

6 FIXED ASSETS (Cont'd)

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2012						
Cost	1,732	6,159	255	12	386	8,544
Accumulated depreciation	(185)	(2,289)	(71)	(6)	(108)	(2,659)
Currency translation differences	–	–	–	–	–	–
Net book amount	1,547	3,870	184	6	278	5,885
Year ended 31 December 2012						
Opening net book amount	1,547	3,870	184	6	278	5,885
Business combinations	–	1	19	–	3	23
Other additions	626	2,388	147	20	197	3,378
Disposals	–	–	(3)	–	–	(3)
Depreciation	(96)	(1,610)	(64)	(6)	(104)	(1,880)
Currency translation differences	–	(1)	1	–	–	–
Closing net book amount	2,077	4,648	284	20	374	7,403
At 31 December 2012						
Cost	2,358	8,227	414	32	586	11,617
Accumulated depreciation	(281)	(3,578)	(131)	(12)	(212)	(4,214)
Currency translation differences	–	(1)	1	–	–	–
Net book amount	2,077	4,648	284	20	374	7,403

For the year ended 31 December 2013, depreciation of RMB1,829 million (2012: RMB1,364 million), RMB42 million (2012: RMB21 million) and RMB613 million (2012: RMB495 million) were charged in cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

7 CONSTRUCTION IN PROGRESS

	2013	2012
	RMB'Million	RMB'Million
Opening net book amount	534	159
Additions	1,815	640
Transfer to fixed assets	(308)	(265)
Closing net book amount	2,041	534

8 LAND USE RIGHTS

	2013	2012
	RMB'Million	RMB'Million
Opening net book amount	794	231
Additions	93	571
Amortisation	(16)	(8)
Closing net book amount	871	794

The land use rights are all related to land in the PRC with remaining lease period of 43 to 49 years. For the year ended 31 December 2013, RMB16 million (2012: RMB8 million) of the amortisation was charged in general and administrative expenses.

9 INTANGIBLE ASSETS

	Goodwill RMB'Million	Computer software and technology RMB'Million	Licences RMB'Million	Licensed online contents RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2013						
Cost	3,013	915	1,510	797	403	6,638
Accumulated amortisation	–	(436)	(887)	(265)	(243)	(1,831)
Currency translation differences	(84)	1	(3)	–	(2)	(88)
Net book amount	2,929	480	620	532	158	4,719
Year ended 31 December 2013						
Opening net book amount	2,929	480	620	532	158	4,719
Business combinations	87	2	–	–	–	89
Other additions	–	224	151	644	17	1,036
Disposal	(402)	(9)	(154)	–	–	(565)
Amortisation	–	(219)	(153)	(685)	(49)	(1,106)
Currency translation differences	(62)	(8)	–	–	–	(70)
Closing net book amount	2,552	470	464	491	126	4,103
At 31 December 2013						
Cost	2,698	1,125	1,386	1,441	420	7,070
Accumulated amortisation	–	(648)	(919)	(950)	(292)	(2,809)
Currency translation differences	(146)	(7)	(3)	–	(2)	(158)
Net book amount	2,552	470	464	491	126	4,103

9 INTANGIBLE ASSETS (Cont'd)

	Goodwill RMB'Million	Computer software and technology RMB'Million	Licences RMB'Million	Licensed online contents RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2012						
Cost	2,695	629	1,355	–	283	4,962
Accumulated amortisation	–	(260)	(645)	–	(193)	(1,098)
Currency translation differences	(79)	–	(3)	–	(2)	(84)
Net book amount	2,616	369	707	–	88	3,780
Year ended 31 December 2012						
Opening net book amount	2,616	369	707	–	88	3,780
Business combinations	318	122	55	–	116	611
Other additions	–	164	100	797	4	1,065
Amortisation	–	(176)	(242)	(265)	(50)	(733)
Currency translation differences	(5)	1	–	–	–	(4)
Closing net book amount	2,929	480	620	532	158	4,719
At 31 December 2012						
Cost	3,013	915	1,510	797	403	6,638
Accumulated amortisation	–	(436)	(887)	(265)	(243)	(1,831)
Currency translation differences	(84)	1	(3)	–	(2)	(88)
Net book amount	2,929	480	620	532	158	4,719

Amortisation of RMB256 million (2012: RMB334 million) and RMB850 million (2012: RMB399 million) were charged in general and administrative expenses and cost of revenues respectively for the year ended 31 December 2013.

9 INTANGIBLE ASSETS (Cont'd)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segments. Most of the goodwill is related to the operating segment of VAS.

The recoverable amount of a CGU is the higher of its value-in-use and fair value less costs to sell. The management calculates fair value less costs to sell based on ratios of EV(enterprise value)/EBITDA(earnings before interest, tax, depreciation and amortisation) of several public comparable companies multiplied by the EBITDA of the related CGU and a discount for the lack of marketability.

The key assumptions used for the calculations of fair value less costs to sell in 2013 and 2012 are as follows:

	2013	2012
EV/EBITDA	**4.1-6.3x**	6.0-8.0x
Discount for the lack of marketability	**25%**	25%

The public comparable companies are considered with factors such as industry similarity, company size, profitability and financial risk.

Based on the assessment made by management, no provision for impairment on goodwill was necessary as at 31 December 2013.

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

(a) Investments in subsidiaries

The amount represents investments in equity interests in subsidiaries of the Company. Details are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Investments in subsidiaries:		
– Investments in equity interests – at cost, unlisted	**–**	69
– Deemed investments arising from share-based compensation (Note (i))	**3,648**	2,600
– Advance to subsidiaries (Note (ii))	**7,036**	6,750
	10,684	9,419

The following is a list of principal subsidiaries of the Company as at 31 December 2013:

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by non-controlling interests (%)	Principal activities
Tencent Computer	Established on 11 November 1998 in the PRC, private limited liability company	RMB30,000,000	100% (Note (iii))	–	Provision of Internet and mobile and telecommunications value-added services, Internet advertisement services and eCommerce transactions business
Tencent Technology	Established on 24 February 2000 in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	–	Development of computer software and provision of information technology services
Shiji Kaixuan	Established on 13 January 2004 in the PRC, private limited liability company	RMB11,000,000	100% (Note (iii))	–	Provision of Internet advertisement service
Tencent Cyber (Tianjin) Company Limited ("Cyber Tianjin")	Established on 8 February 2004 in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	–	Development of computer software and provision of information technology services

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by non-controlling interests (%)	Principal activities
Tencent Asset Management Limited	Established on 7 July 2004 in BVI, private limited liability company	USD100	100%	–	Asset management
Tencent Technology (Beijing) Company Limited ("Tencent Beijing")	Established on 30 March 2005 in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	–	Development of computer software and provision of information technology services
Nanjing Wang Dian Technology Limited ("Wang Dian")	Established on 5 January 2000 in the PRC, private limited liability company	RMB10,290,000	100% (Note (iii))	–	Provision of mobile and telecommunications value-added services
Beijing BIZCOM Technology Company Limited ("Beijing BIZCOM")	Established on 11 June 2002 in the PRC, private limited liability company	RMB16,500,000	100% (Note (iii))	–	Provision of mobile and telecommunications value-added services
Beijing Starsinhand Technology Company Limited ("Beijing Starsinhand")	Established on 13 July 2005 in the PRC, private limited liability company	RMB10,000,000	100% (Note (iii))	–	Provision of mobile and telecommunications value-added services
Tencent Cyber (Shenzhen) Company Limited ("Cyber Shenzhen")	Established on 17 January 2007 in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	–	Development of computer software
Tencent Technology (Shanghai) Company Limited ("Tencent Shanghai")	Established on 23 July 2008 in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	–	Development of computer software and provision of Internet information services

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(a) Investments in subsidiaries (Cont'd)

Name	Place and date of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Proportion of equity interest held by non-controlling interests (%)	Principal activities
Tencent Technology (Chengdu) Company Limited ("Tencent Chengdu")	Established on 10 July 2008 in the PRC, wholly foreign owned enterprise	USD60,000,000	100%	–	Development of computer software and provision of information technology services
Tencent Technology (Wuhan) Company Limited ("Tencent Wuhan")	Established on 18 November 2011 in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	–	Development of computer software and provision of Internet information services
Riot Games, Inc. ("Riot Games")	Established in September 2006 in the United States, private limited liability company	USD43,068,238	88.5%	11.5%	Development and operation of online games

All subsidiaries undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

Note:

(i) The amount represents share-based compensation expenses arising from grants of share options and awarded shares of the Company to employees of subsidiaries in exchange for their services provided to the subsidiaries, which were deemed to be investment made by the Company into these subsidiaries.

(ii) All these balances are unsecured and interest-free and their repayments are neither planned nor likely to occur in the foreseeable future.

(iii) As described in Note 1, the Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.

(iv) The directors of the Company considered that the non-controlling interests of the subsidiaries are not significant to the Group, and the Group did not separately disclose relevant subsidiaries' summarised financial information.

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(b) Significant restrictions

Cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB44,818 million are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on payment of dividends, share repurchase and offshore investments, etc.

(c) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries as at 31 December 2013 represented current account balances maintained by the Company with certain subsidiaries. All balances are unsecured and interest-free and the balances are repayable on demand. As at 31 December 2013, the amounts due from subsidiaries were neither past due nor impaired.

(d) Consolidation of structured entities

As mentioned in Note 10(a)(iii) above, the Company has consolidated the operating entities within the Group without any legal interests. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 21(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

For the year ended 31 December 2013, the Company contributed approximately RMB278 million (2012: RMB121 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

10 INVESTMENTS IN SUBSIDIARIES, AMOUNT DUE FROM/(TO) SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

(e) Disposal of a subsidiary

In October 2012, the Group entered into an agreement with a third party, a company listed on the Shanghai Stock Exchange (the "Buyer"), to sell all its equity interests (65.8%) held in Beijing Manyougu Information Technology Limited Company ("Manyougu") ("Manyougu Disposal"). Manyougu is principally engaged in game development in PRC and had been accounted for as a subsidiary of the Group until October 2013.

In October 2013, the majority equity interests of Manyougu held by the Group have been disposed of and Manyougu ceased to be accounted for as a subsidiary of the Group since October 2013.

The disposal gain recognised in "Other gains/(losses), net" in the consolidated income statement for Manyougu Disposal was RMB189 million.

11 INTERESTS IN ASSOCIATES

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Investments in associates (Note (a))		
– Listed shares	**1,426**	1,481
– Unlisted shares	**9,441**	4,829
	10,867	6,310
Investments in redeemable preference shares of associates (Note (b))	**1,119**	838
Loans to associates (Note (c))	**184**	162
	12,170	7,310

11 INTERESTS IN ASSOCIATES (Cont'd)

Note:

(a) Investments in associates

	2013 RMB'Million	2012 RMB'Million
At beginning of the year	**6,310**	3,764
Additions (i), (ii) and (iii)	**4,534**	2,969
Share of profit/(losses) of associates	**213**	(54)
Share of other comprehensive income of associates	**48**	–
Disposal of associates	**(152)**	(98)
Impairment provision (iv)	**(44)**	(195)
Dividends received from associates	**(42)**	(33)
Decrease as a result of step-up business combinations	**–**	(43)
At end of the year	**10,867**	6,310

(i) In June 2013, the Group acquired additional non-redeemable preference shares in Kingsoft Internet Security Software Holdings Limited ("KIS"), an existing associate of the Group which is principally engaged in development and sales of Internet security software and antivirus software, for a cash consideration of approximately USD47 million (equivalent to approximately RMB290 million), and increased the Group's equity interest in KIS from approximately 10.0% to approximately 18.0%.

(ii) In 2013, the Group subscribed for ordinary shares and preference shares in Sogou Inc. ("Sogou") ("Sogou acquisition"), representing 40.9% of the share capital of Sogou and 24.8% of the voting interest in Sogou, for a total consideration comprising of search related businesses and certain other assets of the Group and a net cash consideration of approximately USD516 million (equivalent to approximately RMB3,179 million). Sogou is principally engaged in the provision of Internet search services, as well as in the development and operations of a suite of Internet applications in the PRC, including Sogou Pinyin, Sogou Browser and Sogou Web Directory. Since the Group has representatives in Sogou's board of directors, Sogou is accounted for as an associate of the Group.

(iii) In addition to the above, the Group acquired some other associates or made additional investments in existing associates for an aggregate consideration of RMB702 million during the year ended 31 December 2013. They are principally engaged in provision of online community services, online game development and other Internet-related businesses.

(iv) During the year ended 31 December 2013, the Group made impairment provision of RMB44 million (2012: RMB195 million) for investments in associates based on the assessment with reference to business performance and recoverable value of associates.

11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(a) Investments in associates (Cont'd)

The Group's share of the results, the revenues, the aggregated assets (including goodwill) and liabilities of its associates, as well as the fair value of the associates which are listed companies, are shown in aggregate as follows:

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profits from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income RMB'Million	Fair value of listed companies as at 31 December 2013 RMB'Million
2013							
Listed companies	**1,105**	**322**	**431**	**63**	**(1)**	**62**	**3,514**
Non-listed companies	**10,774**	**690**	**1,905**	**150**	**49**	**199**	
	11,879	**1,012**	**2,336**	**213**	**48**	**261**	

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profits/(losses) from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income RMB'Million	Fair value of listed companies as at 31 December 2012 RMB'Million
2012							
Listed companies	1,743	262	411	34	–	34	1,451
Non-listed companies	5,274	445	1,191	(88)	–	(88)	
	7,017	707	1,602	(54)	–	(54)	

The directors are of the view that there was no associate which is material to the Group, the Group did not separately disclose relevant associates' summarised financial information.

Management has assessed the level of influence that the Group has on certain associates and determined that it has significant influence even though the shareholding is below 20% because of the board representation. Consequently, these investments have been classified as associates.

11 INTERESTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(b) Investments in redeemable preference shares of associates

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

During the year ended 31 December 2013, the Group also made impairment provision of approximately RMB17 million (2012: RMB449 million) for the investments in redeemable preference shares of certain associates based on the assessment made with reference to the business performance and recoverable values of the underlying associates.

(c) Loans to associates

As at 31 December 2013, the carrying amount of the loans to associates of the Group amounted to RMB184 million (2012: RMB162 million). The aggregate principal amount of the loans to associates is RMB179 million (2012: RMB160 million), which are required to be repaid in 2 years. These loans bear interest rates of 4.0% to 6.0% per annum or are interest-free.

(d) Transactions with associates

During the years ended 31 December 2013 and 2012, the Group entered into cooperation agreements with certain associates, pursuant to which the associates operate their games/applications on the Group's Internet platforms, which are available to the users of the Group. The Group pays the associates a pre-determined percentage of the fees paid by and collected from end users for the virtual products/items utilised in their games/applications. In the whole arrangement, the Group acts as an agent and recognises the related revenue on a net basis. In 2013 and 2012, the revenue recorded by the Group from the above cooperation with associates was not material.

As at 31 December 2013 and 2012, the Group was entitled to certain call options and conversion options associated with its interests in associates. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

There are no contingent liabilities relating to the Group's interest in the associates.

12 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'Million	Available-for-sale financial assets RMB'Million	Total RMB'Million
Assets			
At 31 December 2013			
Interests in associates (Note 11)	**1,303**	**–**	**1,303**
Available-for-sale financial assets (Note 13)	**–**	**12,515**	**12,515**
Accounts receivable (Note 15)	**2,955**	**–**	**2,955**
Deposits and other receivables	**2,880**	**–**	**2,880**
Term deposits (Note 17)	**31,043**	**–**	**31,043**
Restricted cash	**4,131**	**–**	**4,131**
Cash and cash equivalents (Note 18)	**20,228**	**–**	**20,228**
Total	**62,540**	**12,515**	**75,055**
At 31 December 2012			
Interests in associates	1,000	–	1,000
Available-for-sale financial assets	–	5,633	5,633
Accounts receivable	2,354	–	2,354
Deposits and other receivables	1,785	–	1,785
Term deposits	24,698	–	24,698
Restricted cash	2,520	–	2,520
Cash and cash equivalents	13,383	–	13,383
Total	45,740	5,633	51,373

12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Group (Cont'd)

	Financial liabilities at amortised cost RMB'Million
Liabilities	
At 31 December 2013	
Long-term notes payable (Note 26)	**9,141**
Long-term payables (Note 24)	**1,600**
Accounts payable (Note 22)	**6,680**
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	**6,971**
Borrowings (Note 25)	**5,912**
Total	**30,304**
At 31 December 2012	
Long-term notes payable	7,517
Long-term payables	1,508
Accounts payable	4,212
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals)	4,004
Borrowings	3,183
Total	20,424

12 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

Company

	Loans and receivables RMB'Million
Assets	
At 31 December 2013	
Amounts due from subsidiaries (Note 10(c))	**4,934**
Deposits and other receivables	**111**
Cash and cash equivalents (Note 18)	**346**
Total	**5,391**
At 31 December 2012	
Amounts due from subsidiaries	4,906
Deposits and other receivables	24
Cash and cash equivalents	166
Total	5,096

	Financial liabilities at amortised cost RMB'Million
Liabilities	
At 31 December 2013	
Long-term notes payable (Note 26)	**9,141**
Amounts due to subsidiaries (Note 10(c))	**2,632**
Other payables and accruals	**58**
Total	**11,831**
At 31 December 2012	
Long-term notes payable	7,517
Amounts due to subsidiaries	2,308
Other payables and accruals	44
Total	9,869

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
At beginning of the year	**5,633**	4,344
Additions (Note (a), (b) and (c))	**3,890**	556
Transfer to interests in associates	**–**	(31)
Gains from changes in fair value	**3,018**	819
Impairment provision	**(26)**	(55)
At end of the year, all non-current	**12,515**	5,633

Available-for-sale financial assets include the following:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Listed equity interests:		
7.76% (2012: 7.76%) equity interest in Mail.ru Group Limited	**4,413**	3,519
4.60% (2012: 4.60%) equity interest in Huayi Bros. Media Group	**1,547**	396
3.98% (2012: 3.98%) equity interest in Hangzhou Shunwang Technology Co., Ltd.	**270**	136
4.92% (2012: 5.01%) equity interest in Media Asia Group Holdings Limited	**15**	32
Market value of listed securities	**6,245**	4,083
Unlisted equity interests	**6,270**	1,550
	12,515	5,633

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Cont'd)

Note:

(a) In June 2013, the Group acquired certain equity interests in a company incorporated in US, which is mainly engaged in the provision of eCommerce services in US and Europe, for a consideration of USD50 million (equivalent to approximately RMB309 million).

(b) In October 2013, the Group, as a limited partner, subscribed for certain partnership interest of a newly established partnership at a total cash consideration of approximately USD429 million (equivalent to approximately RMB2,638 million). The partnership holds certain equity interests in Activision Blizzard Inc., an US listed company, which is mainly engaged in interactive entertainment business. The initial indirect interest in Activision Blizzard Inc. is around 6.0%.

(c) In addition to the above, the Group also acquired some other available-for-sale financial assets or made additional investments in existing available-for-sale financial assets for an aggregate consideration of RMB943 million during the year ended 31 December 2013. They are principally engaged in the provision of online community services, online games development and other Internet-related businesses.

Available-for-sale financial assets are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
USD	**9,668**	4,545
HKD	**15**	32
RMB	**2,832**	1,056
Total	**12,515**	5,633

As at 31 December 2013, there were certain call or conversion options embedded in available-for-sale financial assets invested by the Group. The directors of the Company considered that the fair values of such options were insignificant and accordingly, the Group did not separately recognise these options in the consolidated financial statements.

14 INVENTORIES

The inventories are mainly merchandise purchased for the Group's eCommerce transactions business.

The cost of inventories is recognised as expense and included in "cost of merchandise sold" amounted to RMB8,991 million for the year ended 31 December 2013 (2012: RMB4,067 million).

15 ACCOUNTS RECEIVABLE

Accounts receivable and their ageing analysis are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
0 - 30 days	**1,537**	1,407
31 - 60 days	**827**	553
61 - 90 days	**369**	257
Over 90 days	**222**	137
	2,955	2,354

Accounts receivable were mainly denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Telecommunications operators	**1,031**	1,237
Online advertising customers	**1,296**	811
Others	**628**	306
	2,955	2,354

While there are no contractual requirements for the telecommunication operators to pay amounts owed to the Group within a specified period of time, they usually settle the amounts due by them within a period of 30 to 120 days. Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted a credit period of 90 days after full execution of the contracted advertisement orders.

As at 31 December 2013, insignificant amounts of accounts receivable were past due. No impairment provision was considered necessary after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the receivable balances approximated to their fair value as at 31 December 2013.

16 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayment for licensed contents	**840**	575
Running royalty fees for online games	**37**	97
Prepayment for purchase of building	**–**	244
Loan to joint ventures	**–**	50
Others	**419**	270
	1,296	1,236
Included in current assets:		
Running royalty fees for online games	**1,454**	1,640
Interest receivables	**1,131**	353
Prepaid expenses	**1,031**	503
Refundable value-added tax	**220**	589
Rental deposits and other deposits	**138**	120
Others	**1,391**	673
	5,365	3,878
	6,661	5,114

Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients. The directors of the Company considered that the carrying amounts of the prepayments, deposits and other assets approximated to their fair values as at 31 December 2013.

17 TERM DEPOSITS

The effective interest rate for the term deposits of the Group with initial term of over three months for the year ended 31 December 2013 was 3.97% (2012: 3.87%).

An analysis of the Group's term deposits denominated in RMB, USD and KRW with initial term of over three months as at 31 December 2013 are listed as below:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**11,420**	10,891
USD term deposits	**–**	1
	11,420	10,892
Included in current assets:		
RMB term deposits	**19,024**	10,448
USD term deposits	**597**	3,358
KRW term deposits	**2**	–
	19,623	13,806
	31,043	24,698

Term deposits with initial term of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial term of over three months approximated their fair value as at 31 December 2013.

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2013	2012	**2013**	2012
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Bank balances and cash	**11,093**	8,460	**346**	166
Term deposits and highly liquid investments with initial term within three months	**9,135**	4,923	**–**	–
	20,228	13,383	**346**	166
Maximum exposure to credit risk	**20,227**	13,383	**346**	166

The effective interest rates of the term deposits of the Group with initial term within three months for the year ended 31 December 2013 and 2012 were 2.39% and 2.21%, respectively.

Approximately RMB10,303 million (2012: RMB8,687 million) of the total balance of the Group was denominated in RMB and it was deposited with banks in Mainland China. The Company had no material cash balance denominated in RMB.

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES

The total authorised share capital of the Company comprises 10,000,000,000 ordinary shares (2012: 10,000,000,000 shares) with par value of HKD0.0001 per share (2012: HKD0.0001 per share).

As at 31 December 2013, the total number of issued ordinary shares of the Company was 1,862,110,840 shares (2012: 1,853,333,230 shares) which included 19,501,655 shares (2012: 19,349,672 shares) held under the share award schemes (Note 21(b)). They were all fully paid up.

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (Cont'd)

	Number of ordinary shares	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2013	**1,853,333,230**	**–**	**2,880**	**(667)**	**2,213**
Employee share option schemes:					
– value of employee services	–	–	58	–	58
– number of shares issued and proceeds received (Note (a))	11,361,870	–	308	–	308
Employee share award schemes:					
– value of employee services	–	–	999	–	999
– shares purchased for share award schemes (Note (b))	–	–	–	(278)	(278)
– shares allotted for share award schemes (Note (c))	4,058,740	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(74)	74	–
Repurchase and cancellation of shares	(6,643,000)	–	(1,325)	–	(1,325)
At 31 December 2013	**1,862,110,840**	**–**	**2,846**	**(871)**	**1,975**

19 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (Cont'd)

	Number of ordinary shares	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2012	1,839,814,008	–	1,951	(607)	1,344
Employee share option schemes:					
– value of employee services	–	–	95	–	95
– number of shares issued and proceeds received	9,295,222	–	238	–	238
Employee share award schemes:					
– value of employee services	–	–	677	–	677
– shares purchased for share award schemes	–	–	–	(121)	(121)
– shares allotted for share award schemes	4,378,400	–	–	–	–
– shares vested from share award schemes and transferred to the grantees	–	–	(61)	61	–
Repurchase and cancellation of shares	(154,400)	–	(20)	–	(20)
At 31 December 2012	1,853,333,230	–	2,880	(667)	2,213

Note:

(a) During the year ended 31 December 2013, 11,361,870 (2012: 9,295,222) Post-IPO options with exercise prices ranging from HKD3.665 to HKD194.40 (2012: HKD3.665 to HKD189.00) were exercised.

(b) During the year ended 31 December 2013, the Share Scheme Trust acquired and withheld 999,306 ordinary shares (2012: 651,901 shares) of the Company for a total consideration of HKD348 million (equivalent to approximately RMB278 million) (2012: HKD149 million (equivalent to approximately RMB121 million), which had been deducted from shareholders' equity.

(c) During the year ended 31 December 2013, the Company allotted 4,058,740 ordinary shares (2012: 4,378,400 shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the share award scheme.

(d) During the year ended 31 December 2013, the Share Scheme Trust transferred 4,906,063 ordinary shares of the Company (2012: 3,490,468 shares) to the share awardees upon vesting of the awarded shares.

(e) As at 31 December 2013, included in "Shares held for share award schemes", 1,435,659 ordinary shares (2012: 405,230 shares) held by the Share Scheme Trust had not yet been granted to the participants.

20 OTHER RESERVES

	Capital reserve (Note (a)) RMB'Million	Available-for-sale financial assets RMB'Million	Interests in associates RMB'Million	Currency translation differences RMB'Million	Statutory surplus reserve fund (Note (b)) RMB'Million	Reserve fund (Note (b)) RMB'Million	Share-based compensation reserve (Note (c)) RMB'Million	Total RMB'Million
Balance at 1 January 2013	**(1,370)**	**1,411**	**–**	**(20)**	**571**	**12**	**212**	**816**
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	–	62	62
– Employee share award schemes	–	–	–	–	–	–	36	36
Acquisition of additional equity interests in non-wholly owned subsidiaries	(72)	–	–	–	–	–	–	(72)
Profit appropriations to statutory reserves	–	–	–	–	79	–	–	79
Net gains from changes in fair value of available-for-sale financial assets	–	2,825	–	–	–	–	–	2,825
Share of other comprehensive income of associates	–	–	48	–	–	–	–	48
Currency translation differences	–	–	–	(48)	–	–	–	(48)
Balance at 31 December 2013	**(1,442)**	**4,236**	**48**	**(68)**	**650**	**12**	**310**	**3,746**

20 OTHER RESERVES (Cont'd)

	Capital reserve RMB'Million	Available-for-sale financial assets RMB' Million	Currency translation differences RMB' Million	Statutory surplus reserve fund RMB' Million	Reserve fund RMB' Million	Share-based compensation reserve RMB' Million	Total RMB' Million
Balance at 1 January 2012	(773)	587	(31)	506	12	108	409
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	(357)	–	–	–	–	–	(357)
Value of employee services:							
– Employee share option schemes	–	–	–	–	–	59	59
– Employee share award schemes	–	–	–	–	–	45	45
Acquisition of additional equity interests in non-wholly owned subsidiaries	(240)	–	–	–	–	–	(240)
Profit appropriations to statutory reserves	–	–	–	65	–	–	65
Net gains from changes in fair value of available-for-sale financial assets	–	824	–	–	–	–	824
Currency translation differences	–	–	11	–	–	–	11
Balance at 31 December 2012	(1,370)	1,411	(20)	571	12	212	816

20 OTHER RESERVES (Cont'd)

Note:

(a) The capital reserve mainly arises from transactions undertaken with non-controlling interests.

(b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Funds. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from their respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(c) This share-based compensation reserve arises from share option schemes and restricted share award schemes adopted by non-wholly owned subsidiaries (Note 21(d)).

21 SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and Post-IPO Option Scheme III, under which the directors may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The Pre-IPO Option Scheme expired on 31 December 2011. Post-IPO Option Scheme I was terminated upon the adoption of the Post-IPO Option Scheme II.

In respect of Post-IPO Option Scheme II and Post-IPO Option Scheme III, the exercise price must be at least the higher of: (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (3) the nominal value of the Company's shares. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

(i) Movements in share options

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

	Post-IPO Option Scheme I		Post-IPO Option Scheme II		Post-IPO Option Scheme III		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2013	**HKD11.13**	**4,596,489**	**HKD65.50**	**20,633,097**	**HKD158.50**	**1,000,000**	**26,229,586**
Exercised	**HKD11.10**	**(3,777,146)**	**HKD45.33**	**(7,584,724)**	**–**	**–**	**(11,361,870)**
Lapsed	**HKD5.51**	**(77)**	**HKD125.67**	**(400,368)**	**–**	**–**	**(400,445)**
At 31 December 2013	**HKD11.25**	**819,266**	**HKD75.69**	**12,648,005**	**HKD158.50**	**1,000,000**	**14,467,271**
Exercisable as at 31 December 2013	**HKD11.25**	**819,266**	**HKD53.99**	**7,896,272**	**–**	**–**	**8,715,538**
At 1 January 2012	HKD12.39	8,761,937	HKD59.97	26,156,088	HKD158.50	1,000,000	35,918,025
Granted	–	–	HKD248.80	165,800	–	–	165,800
Exercised	HKD13.81	(4,090,290)	HKD45.49	(5,204,932)	–	–	(9,295,222)
Lapsed	HKD11.54	(75,158)	HKD44.68	(483,859)	–	–	(559,017)
At 31 December 2012	HKD11.13	4,596,489	HKD65.50	20,633,097	HKD158.50	1,000,000	26,229,586
Exercisable as at 31 December 2012	HKD11.13	4,596,489	HKD45.03	9,931,574	–	–	14,528,063

21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(i) Movements in share options (Cont'd)

During the years ended 31 December 2013 and 2012, no share option was granted to any directors of the Company.

As a result of the options exercised during the year ended 31 December 2013, 11,361,870 ordinary shares (2012: 9,295,222 ordinary shares) were issued by the Company (Note 19). The weighted average price of the shares at the time these options were exercised was HKD348.05 (equivalent to approximately RMB276.79) per share (2012: HKD231.04 per share (equivalent to approximately RMB187.98 per share)).

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2013 and 31 December 2012 are as follows:

		Number of share options	
Expiry Date	**Range of exercise price**	**31 December 2013**	31 December 2012
10 years commencing from the adoption date of 24 March 2004	HKD3.665-HKD8.35	**492,741**	2,362,976
(Post-IPO Option Scheme I)	HKD11.55-HKD25.26	**326,525**	2,233,513
		819,266	4,596,489
7 years commencing from the date	HKD31.75-HKD43.50	**4,846,040**	9,718,200
of grant of options	HKD45.50-HKD90.30	**4,586,510**	7,125,022
(Post-IPO Option Scheme II)	HKD128.40-HKD248.80	**3,215,455**	3,789,875
		12,648,005	20,633,097
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD158.50	**1,000,000**	1,000,000
		14,467,271	26,229,586

21 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Fair value of options

The directors of the Company have used the BS Model to determine the fair value of the options granted, which is to be expensed over the vesting period. There is no share option granted to employees in 2013. The weighted average fair value of options granted during the year ended 31 December 2012 was HKD87.89 per option (equivalent to approximately RMB71.78 per option).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate (2012: 0.40%), dividend yield (2012: 0.36%) and expected volatility (Note) (2012: 48.1%), is required to be made by the directors in applying the BS Model.

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

The outstanding share options as of 31 December 2013 were divided into two to five tranches on an equal basis as at their grant date. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes

The Company has adopted two share award schemes (the "Share Award Schemes"), both of which are managed by an independent trustee appointed by the Group (the "Trustee") as of 31 December 2013. The vesting period of the awarded share is determined by the Board.

Movements in the number of shares held for the Share Award Schemes and awarded shares for the years ended 31 December 2013 and 2012 are as follows:

	Number of shares held for the Share Award Schemes	Number of awarded shares	Total
At 1 January 2013	**405,230**	**18,944,442**	**19,349,672**
Purchased and withheld (Note 19)	**999,306**	**–**	**999,306**
Allotted	**4,058,740**	**–**	**4,058,740**
Granted (Note)	**(5,188,175)**	**5,188,175**	**–**
Lapsed	**1,160,558**	**(1,160,558)**	**–**
Vested and transferred	**–**	**(4,906,063)**	**(4,906,063)**
At 31 December 2013	**1,435,659**	**18,065,996**	**19,501,655**
Vested but not transferred as at 31 December 2013			**–**
At 1 January 2012	1,970,840	15,838,999	17,809,839
Purchased and withheld	651,901	–	651,901
Allotted	4,378,400	–	4,378,400
Granted	(7,569,380)	7,569,380	–
Lapsed	973,469	(973,469)	–
Vested and transferred	–	(3,490,468)	(3,490,468)
At 31 December 2012	405,230	18,944,442	19,349,672
Vested but not transferred as at 31 December 2012			5

Note:

During the years ended 31 December 2013 and 2012, no awarded share was granted to any director of the Company.

21 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes (Cont'd)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the year ended 31 December 2013 was HKD311.24 per share (equivalent to approximately RMB248.05 per share) (2012: HKD245.95 per share (equivalent to approximately RMB200.81 per share)).

The outstanding awarded shares as of 31 December 2013 were divided into two to six tranches on an equal basis as at their grant date. The first tranche can be exercised immediately or after a specified period ranging from three months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive scheme

In 2011, the Group established an employee incentive scheme in a form of limited liability partnership (the "EIS") for incentive purpose pursuant to a shareholders' resolution passed at the 2011 annual general meeting of the Company held on 11 May 2011. The Board may, at its absolute discretion, select any employee of the Group to participate in the EIS by subscribing for the partnership interest at cash consideration. The total cash contribution by selected employees is limited to approximately RMB80 million. The participating employees are entitled to all the economic benefits generated by the EIS (if any) after a specified vesting period under the EIS, ranging from 4 to 7 years. A wholly-owned subsidiary of the Company which acts as a general partner of the EIS manages and in essence, controls it. The EIS is therefore consolidated by the Company. In addition, because certain continuous service conditions are attached to the partnership interest subscribed by the employees, the EIS is accounted for as an equity-settled share-based payment transaction, the expenses of which for the years ended 31 December 2013 and 2012 were considered not significant to the Group by the directors of the Company.

21 SHARE-BASED PAYMENTS (Cont'd)

(d) Share options and restricted share award schemes adopted by non-wholly owned subsidiaries

Certain non-wholly owned subsidiaries of the Group operate their own share-based compensation plans (share option and/or restricted share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries so granted are normally vested by several tranches. Some non-wholly owned subsidiaries' participants have the right to request the Group to repurchase their vested equity interest in those non-wholly owned subsidiaries ("Repurchase Transaction"). For certain of those participants, the Group have discretion to settle the Repurchase Transaction by using either equity instruments of the Group or by cash. For the Repurchase Transaction which the Group having settlement options, there are certain portions that the directors of the Company are currently of the view that they would be settled by equity instruments of the Group and they are accounted for using the equity-settled share-based payment method. The remaining portion is accounted for as cash-settled share-based payments.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the income statement. As at 31 December 2013, the Expected Retention Rate was assessed to be 91% (31 December 2012: 91%).

22 ACCOUNTS PAYABLE

Accounts payable and their ageing analysis are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB' Million
0 - 30 days	**4,063**	3,574
31 - 60 days	**1,147**	430
61 - 90 days	**366**	176
Over 90 days	**1,104**	32
	6,680	4,212

23 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**3,085**	2,222
Marketing and administrative expense accruals	**1,440**	873
Prepayments received from customers and eCommerce business (Note)	**4,045**	2,487
Running royalty fee for online games	**30**	44
Purchase consideration payables for business combinations	**11**	40
Others	**1,635**	635
	10,246	6,301

Note:

Prepayments received from eCommerce business were recorded as restricted cash.

24 LONG-TERM PAYABLES

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**1,297**	1,138
Purchase consideration payables for business combinations	**99**	104
Running royalty fee for online games	**37**	97
Others	**167**	169
	1,600	1,508

25 BORROWINGS

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	**3,323**	2,106
Included in current liabilities:		
RMB bank borrowings		
– Secured	**–**	15
– Unsecured	**150**	25
USD bank borrowings		
– Unsecured (Note (b))	**2,134**	943
Current portion of long-term USD bank borrowings		
– Unsecured (Note (a))	**305**	94
	2,589	1,077
	5,912	3,183

Note:

(a) The aggregate principal amount of long-term USD bank borrowings was USD595 million. Applicable interest rates are at LIBOR plus 1.05% to 1.97% per annum.

The unsecured long-term bank borrowings were repayable as follows:

	As at 31 December 2013
	RMB'Million
Within 1 year	**305**
Between 1 and 2 years	**2,164**
Between 2 and 5 years	**1,159**
	3,628

25 BORROWINGS (Cont'd)

Note: (Cont'd)

(b) The aggregate principal amount of short-term USD bank borrowings was USD350 million. Applicable interest rates are at LIBOR plus 1.20% to 1.25% per annum.

The fair value of the borrowings approximated to their carrying amounts as at 31 December 2013.

26 LONG-TERM NOTES PAYABLE

On 12 December 2011, the Company issued long-term notes (the "2011 Notes") with an aggregate principal amount of USD600 million for general corporate purposes. The 2011 Notes bear an interest at 4.625% per annum from 12 December 2011, payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 June 2012. The 2011 Notes are listed on Singapore Exchange Securities Trading Limited and will mature on 12 December 2016.

On 5 September 2012, the Company issued another long-term notes (the "2012 Notes") with an aggregate principal amount of USD600 million for general corporate purposes. The 2012 Notes bear an interest at 3.375% per annum from 5 September 2012, payable semi-annually in arrears on 5 March and 5 September of each year, beginning on 5 March 2013. The 2012 Notes are listed on the Stock Exchange and will mature on 5 March 2018.

On 10 September 2013, the Company issued another long-term notes (the "2013 Notes") with an aggregate principal amount of USD300 million for general corporate purposes. The 2013 Notes bear an interest at 1.860% per annum from 10 September 2013, payable semi-annually in arrears on 10 March and 10 September of each year, beginning on 10 March 2014. The 2013 Notes are non-publicly issued and will mature on 10 September 2015. The issue price of the 2013 Notes is 99.766% of the aggregate principal amount. The net proceeds from the issuance of the 2013 Notes, after deduction of underwriting fees, discounts, commissions and other expenses payable in connection with the issuance, amounted to approximately USD299 million (equivalent to approximately RMB1,847 million).

The fair value of the long-term notes payable at 31 December 2013 amounted to RMB9,476 million (31 December 2012: RMB7,950 million). The respective fair values are assessed based on the active market price of these notes on the balance sheet date or by making reference to similar instruments traded in the observable market.

27 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain VAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2013. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values.

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

There was no offsetting of deferred income tax assets and liabilities in 2013 and 2012.

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**348**	122
– to be recovered within 12 months	**83**	47
	431	169
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(824)**	(1,044)
– to be recovered within 12 months	**(617)**	(268)
	(1,441)	(1,312)

The movements of the deferred income tax assets/liabilities account were as follows:

	2013	2012
	RMB'Million	RMB'Million
At beginning of the year	**(1,143)**	(742)
Charge to income statement relating to origination and reversal of temporary differences (Note 37)	**(111)**	(519)
Withholding tax paid in related to the remittance of dividends	**412**	187
(Charge to)/credit to other comprehensive income	**(193)**	5
Disposal of a subsidiary	**23**	–
Business combinations	**–**	(72)
Currency translation differences	**2**	(2)
At end of the year	**(1,010)**	(1,143)

28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax assets were as follows:

	Deferred tax assets arising from intra-group software and technology sales RMB'Million (Note)	Deferred tax assets arising from change in fair value of available-for-sale financial assets RMB'Million	Deferred tax assets arising from tax losses RMB'Million	Deferred tax assets arising from accelerated amortisation RMB'Million	Total RMB'Million
At 1 January 2013	**162**	**7**	**–**	**–**	**169**
Credit to income statement relating to reversal of temporary differences	**9**	**–**	**213**	**47**	**269**
Charge to other comprehensive income	**–**	**(7)**	**–**	**–**	**(7)**
At 31 December 2013	**171**	**–**	**213**	**47**	**431**
At 1 January 2012	197	1	–	–	198
Charge to income statement relating to reversal of temporary differences	(35)	–	–	–	(35)
Credit to other comprehensive income	–	6	–	–	6
At 31 December 2012	162	7	–	–	169

Note:

The deferred tax assets recognised are mainly related to the temporary differences arising from certain intra-group software and technology transfer transactions. The credit to income statement represents tax impacts of originating temporary differences arising from these software and technology transfer, while the charge to income statement represents tax impacts of the reversal of the temporary differences as a result of the amortisation of the costs of these software and technology.

As at 31 December 2013, the Group did not recognise deferred income tax assets of RMB443 million (2012: RMB251 million) in respect of cumulative tax losses amounting to RMB2,057 million (2012: RMB910 million). These tax losses will expire from 2014 to 2018.

28 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred tax liabilities were as follows:

	Intangible assets acquired in business combinations at fair value RMB'Million	Withholding tax on the earnings anticipated to be remitted by PRC subsidiaries RMB'Million (Note)	Deferred tax liabilities arising from change in fair value of available-for-sale financial assets RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2013	**(118)**	**(1,193)**	**(1)**	**–**	**(1,312)**
Credit /(charge) to income statement relating to origination and reversal of temporary differences	**24**	**(347)**	**–**	**(57)**	**(380)**
Disposal of a subsidiary	**23**	**–**	**–**	**–**	**23**
Withholding tax paid in related to the remittance of dividends	**–**	**412**	**–**	**–**	**412**
Charge to other comprehensive income	**–**	**–**	**(186)**	**–**	**(186)**
Currency translation differences	**2**	**–**	**–**	**–**	**2**
At 31 December 2013	**(69)**	**(1,128)**	**(187)**	**(57)**	**(1,441)**
At 1 January 2012	(112)	(828)	–	–	(940)
Business combinations	(72)	–	–	–	(72)
Credit /(charge) to income statement relating to origination of temporary differences	68	(552)	–	–	(484)
Withholding tax paid in related to the remittance of dividends	–	187	–	–	187
Charge to other comprehensive income	–	–	(1)	–	(1)
Currency translation differences	(2)	–	–	–	(2)
At 31 December 2012	(118)	(1,193)	(1)	–	(1,312)

Note:

According to applicable PRC tax regulations, withholding tax will be levied on the dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 (Note 37 (a)(vi)).

28 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2013, the Group recognised the relevant deferred tax liabilities of RMB1,128 million (2012: RMB1,193 million) on the earnings anticipated to be remitted by certain PRC subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB15,818 million (2012: RMB5,726 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

29 COST OF REVENUES

Cost of revenues mainly comprises the Mobile and Telecom Charges (Note 2.28(a)), bandwidth and server custody fees, staff costs, sharing and content subscription costs incurred and cost of merchandise sold in deriving the revenues.

30 INTEREST INCOME

Interest income mainly represents interest income from bank deposits, including current term deposits, restricted cash and non-current term deposits.

31 OTHER GAINS/(LOSSES), NET

	2013	2012
	RMB'Million	RMB'Million
Impairment provision for investees	**(87)**	(699)
Dividend income	**509**	407
Gains on disposal of investees	**267**	7
Subsidies and tax rebates	**368**	226
Losses from derivative financial instruments	**–**	(21)
Donation to Tencent Charity Funds	**(124)**	(120)
Others	**(29)**	(84)
	904	(284)

32 EXPENSES BY NATURE

	2013 RMB'Million	2012 RMB'Million
Employee benefits expenses (Note (a))/(Note 33)	**10,364**	7,724
Content costs and agency fees (Note (b))	**8,523**	6,587
Cost of merchandise sold	**8,991**	4,067
Mobile and telecommunications charges and bandwidth and server custody fees	**4,207**	3,409
Promotion and advertising expenses	**3,894**	1,998
Depreciation of fixed assets (Note (a))/(Note 6)	**2,484**	1,880
Amortisation of intangible assets (Note (b))/(Note 9)	**1,106**	733
Operating lease rentals in respect of office buildings	**867**	615
Travelling and entertainment expenses	**422**	316
Auditor's remuneration		
– Audit services	**18**	15
– Non-audit services	**11**	7

Note:

(a) Research and development expenses for the year ended 31 December 2013 were RMB5,095 million (2012: RMB4,176 million) which included employee benefits expenses of RMB4,000 million (2012: RMB3,358 million) and depreciation of fixed assets of RMB533 million (2012: RMB450 million). No development expenses had been capitalised for the years ended 31 December 2013 and 2012.

(b) Amortisation expense of licenses and licensed online contents were included in amortisation of intangible assets.

33 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2013	2012
	RMB'Million	RMB'Million
Wages, salaries and bonuses	**6,955**	5,577
Welfare, medical and other expenses (Note)	**848**	504
Share-based compensation expenses	**1,786**	1,013
Contributions to pension plans (Note)	**740**	593
Training expenses	**35**	37
	10,364	7,724

Note:

All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contribution to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to a certain ceiling, and are paid to the respective labour and social welfare authorities. Contributions to the plans are expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

	Percentage
Pension insurance	10 - 22%
Medical insurance	6 - 12%
Unemployment insurance	0 - 2%
Housing fund	10 - 12%

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors and the chief executive officer ("CEO") of the Company for the years ended 31 December 2013 and 2012 are as follows:

	2013	2012
	RMB'000	RMB'000
Fees – directors	2,513	2,600
Salaries, bonuses, allowances and benefits in kind	51,235	45,534
Contributions to pension plans	142	122
Share-based compensation expenses charged to income statement	16,242	18,021
	70,132	66,277
Number of directors		
– With emoluments	6	6
– Without emoluments	2	3
Number of directors	8	9

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2013 is set out below:

Name of director	Fees	Salaries, bonuses, allowances and benefits in kind	Contributions to pension plans	Share-based compensation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ma Huateng (CEO)	–	23,071	71	–	23,142
Zhang Zhidong	–	15,918	71	–	15,989
Lau Chi Ping Martin	1,097	12,246	–	15,300	28,643
Iain Ferguson Bruce	629	–	–	538	1,167
Ian Charles Stone	433	–	–	404	837
Li Dong Sheng	354	–	–	–	354
Jacobus Petrus Bekker	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	2,513	51,235	142	16,242	70,132

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emolument of every director and the CEO for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Ma Huateng (CEO)	–	20,617	61	–	20,678
Zhang Zhidong	–	14,741	61	–	14,802
Lau Chi Ping Martin	1,136	10,176	–	16,153	27,465
Iain Ferguson Bruce	651	–	–	1,001	1,652
Ian Charles Stone	447	–	–	774	1,221
Li Dong Sheng	366	–	–	93	459
Antonie Andries Roux (Note)	–	–	–	–	–
Jacobus Petrus Bekker	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–
	2,600	45,534	122	18,021	66,277

Note:

Mr Antonie Andries Roux ceased to be a non-executive director of the Company on 24 June 2012.

During the years ended 31 December 2013 and 2012, no options/awarded shares were granted to any executive, non-executive or independent non-executive directors of the Company.

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2013 and 2012.

34 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Senior management's emoluments

Senior management includes directors, CEO, president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO whose details have been reflected in Note 34(a) is as follows:

	2013	2012
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**109,378**	116,931
Contributions to pension plans	**786**	706
Share-based compensation expenses charged to income statement	**148,721**	107,495
	258,885	225,132

The emoluments of the senior management fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HKD800,000 - HKD15,000,000	**8**	6
HKD15,000,001 - HKD30,000,000	**3**	8
HKD30,000,001 - HKD45,000,000	**3**	–
HKD45,000,001 - HKD60,000,000	**–**	1
HKD75,000,001 - HKD90,000,000	**1**	–

35 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group did not include any director during the year 2013 (2012: two, whose details have been reflected in the analysis presented Note 34). The emoluments paid/payable to the five (2012: three) individuals during the year were as follows:

	2013	2012
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**176,100**	27,017
Contributions to pension plans	**669**	140
Share-based compensation expenses charged to income statement	**375,153**	55,251
	551,922	82,408

The emoluments of the above five individuals (2012: three) fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HKD23,500,001 - HKD24,000,000	**–**	1
HKD26,500,001 - HKD27,000,000	**–**	1
HKD50,500,001 - HKD51,000,000	**–**	1
HKD54,000,001 - HKD54,500,000	**1***	–
HKD82,000,001 - HKD82,500,000	**1**	–
HKD87,500,001 - HKD88,000,000	**1***	–
HKD238,500,001 - HKD239,000,000	**1***	–
HKD239,000,001 - HKD239,500,000	**1***	–

* Employees of a foreign subsidiary of the Group. The respective emolument amounts are mainly comprised of charges related to the vesting of share-based compensation and the re-measurement appreciation of cash-settled share-based award grants.

36 FINANCE COSTS, NET

	2013	2012
	RMB'Million	RMB'Million
Exchange gains/(losses)	**310**	(21)
Interest and related expenses	**(394)**	(327)
	(84)	(348)

Interest expenses mainly arose from the borrowings and long-term notes mentioned in Note 25 and Note 26, respectively.

37 TAX EXPENSE

(a) Income tax expense

(i) Cayman Islands and British Virgin Islands corporate income tax ("CIT")

The Group was not subject to any taxation in these jurisdictions for the years ended 31 December 2013 and 2012.

(ii) Hong Kong profits tax

Hong Kong profits tax provision has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year ended 31 December 2013.

(iii) PRC corporate income tax

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

Pursuant to the PRC Corporate Income Tax Law passed by the Tenth National People's Congress on 16 March 2007 (the "CIT Law"), the CIT rate for domestic and foreign enterprises has been unified at 25%, effective from 1 January 2008.

In 2011, certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for a 3-year period from 2011 to 2013 according to the applicable CIT Law.

37 TAX EXPENSE (Cont'd)

(a) Income tax expense (Cont'd)

(iii) PRC corporate income tax (Cont'd)

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

(iv) United States corporate income tax

United States CIT provision was provided during the year ended 31 December 2013 for the entities within the Group which were incorporated in the United States with estimated assessable profits, at applicable tax rate of 36% (2012: 36%).

(v) Corporate income tax in other countries

CIT provision has been provided for the year ended 31 December 2013 for the entities within the Group which were incorporated in Europe, East Asia and South America to the extent that there were estimated assessable profits under these jurisdictions, at applicable tax rates ranging from 12.5% to 35% (2012: from 12.5% to 35%).

(vi) PRC withholding tax

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

37 TAX EXPENSE (Cont'd)

(a) Income tax expense (Cont'd)

The income tax expense of the Group for the years ended 31 December 2013 and 2012 are analysed as follows:

	2013 RMB'Million	2012 RMB'Million
Current tax	**3,607**	1,747
Deferred income tax (Note 28)	**111**	519
	3,718	2,266

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended 31 December 2013 (2012: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments. The difference is analysed as follows:

	2013 RMB'Million	2012 RMB'Million
Profit before income tax	**19,281**	15,051
Share of (profit)/losses of associates and joint ventures	**(171)**	80
	19,110	15,131
Tax calculated at a tax rate of 25% (2012: 25%)	**4,777**	3,783
Effects of different tax rates applicable to different subsidiaries of the Group	**(1,657)**	(2,028)
Effects of tax holiday on assessable profits of subsidiaries	**(317)**	(308)
Income not subject to tax	**(125)**	(110)
Expenses not deductible for tax purposes	**358**	275
Withholding tax on earnings expected to be remitted by PRC subsidiaries (Note 28)	**347**	552
Unrecognised deferred income tax assets	**315**	87
Others	**20**	15
Income tax expense	**3,718**	2,266

37 TAX EXPENSE (Cont'd)

(b) Value-added tax, business tax and related taxes

The operations of the Group are also subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6-17%	Sales value of goods sold and service fee income, offsetting by VAT on purchases
	3%	Sales value of goods sold and services fee income
Business tax ("BT")	3-5%	Services fee income
City construction tax	7%	Net VAT and BT payable amount
Construction fee for cultural undertakings	3%	Advertising income
Educational surcharge	5%	Net VAT and BT payable amount

38 PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company for the year ended 31 December 2013 is dealt with in the financial statements of the Company to the extent of RMB1,307 million (2012: RMB3,264 million).

39 EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to equity holders of the Company (RMB'Million)	**15,502**	12,732
Weighted average number of ordinary shares in issue (million shares)	**1,832**	1,828
Basic EPS (RMB per share)	**8.464**	6.965

39 EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the year ended 31 December 2013, these share options and restricted shares either had anti-dilutive effect or their dilutive effect was insignificant to the Group.

	2013	2012
Profit attributable to equity holders of the Company (RMB'Million)	**15,502**	12,732
Weighted average number of ordinary shares in issue (million shares)	**1,832**	1,828
Adjustments for share options (million shares)	**16**	23
Adjustments for awarded shares (million shares)	**20**	12
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**1,868**	1,863
Diluted EPS (RMB per share)	**8.298**	6.833

40 DIVIDENDS

The dividends paid in 2013 amounted to RMB1,468 million (2012: RMB1,108 million), which excluded the dividends of RMB15 million (2012: RMB11 million) related to the shares held by the Share Scheme Trust for the purposes of the Share Award Schemes.

A final dividend in respect of the year ended 31 December 2013 of HKD1.20 per share (2012: HKD1.00 per share) was proposed pursuant to a resolution passed by the Board on 19 March 2014 and subject to the approval of the shareholders at the annual general meeting to be held on 14 May 2014 ("AGM"). The consolidated financial statements do not reflect this dividends payable.

41 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash inflow from operating activities:

	2013	2012
	RMB'Million	RMB'Million
Profit for the year	15,563	12,785
Adjustments for:		
Income tax expense	3,718	2,266
Gains on disposal of investees	(267)	(7)
Dividend income	(509)	(407)
Depreciation of fixed assets and investment properties	2,484	1,880
Amortisation of intangible assets	1,106	733
Amortisation of land use rights	16	8
Losses/(gains) on disposals of fixed assets	6	(1)
Losses from derivative financial instruments	–	21
Interest income	(1,314)	(836)
Equity-settled share-based compensation expenses	1,168	905
Share of (profit)/losses of associates	(213)	54
Share of losses of joint ventures	42	26
Impairment provision for available-for-sale financial assets, associates and joint ventures	87	699
Exchange (gains)/losses	(310)	21
Changes in working capital:		
Accounts receivable	(606)	(267)
Inventories	(815)	(301)
Prepayments, deposits and other receivables	(940)	(2,255)
Accounts payable	2,036	1,689
Other payables and accruals	4,071	1,786
Other tax liabilities	52	397
Restricted cash	(1,611)	(640)
Deferred revenue	3,728	3,098
Cash generated from operating activities	27,492	21,654

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Reconciliation of net profit to cash inflow from operating activities: (Cont'd)

In the Consolidated Statement of Cash Flows, proceeds from disposals of fixed assets comprise:

	2013 RMB'Million	2012 RMB'Million
Net book amount	177	3
Search business related assets treated as consideration of the Sogou acquisition	(154)	–
(Losses)/gains on disposals of fixed assets	(6)	1
Proceeds from disposals of fixed assets	17	4

(b) Major non-cash transactions

Other than search businesses related assets treated as consideration of the Sogou acquisition described in Note 41(a), there were no material non-cash transactions for the year ended 31 December 2013.

42 CONTINGENCIES

The Group had no material contingent liabilities outstanding as at 31 December 2013.

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2013 and 2012 are analysed as follows:

	As at 31 December	
	2013 RMB'Million	2012 RMB'Million
Contracted:		
Construction/purchase of building and purchase of land use rights	2,166	447
Purchase of other fixed assets	403	142
Capital investment in investees	854	868
	3,423	1,457

43 COMMITMENTS (Cont'd)

(a) Capital commitments (Cont'd)

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Authorised but not contracted:		
Construction/purchase of building and purchase of land use rights	**851**	1,109
Capital investment in investees	**–**	451
	851	1,560
	4,274	3,017

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**760**	533
Later than one year and not later than five years	**2,013**	1,360
Later than five years	**1,455**	288
	4,228	2,181

(c) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth and server custody leases and online game licensing agreements are as follows:

	As at 31 December	
	2013	2012
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**1,397**	1,052
Later than one year and not later than five years	**1,299**	1,299
	2,696	2,351

44 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 11 (loans to associates and transactions with associates), Note 21 (Share options and share award schemes), Note 34 (Directors' and senior management's emoluments) and Note 35 (Five highest paid individuals) to the consolidated financial statements, the Group had no other material transactions with related parties for the year ended 31 December 2013, and no other material related parties' balances as at 31 December 2013.

45 SUBSEQUENT EVENTS

(a) Investment in JD.com, Inc. ("JD.com")

In March 2014, the Group entered into a series of agreements (including a share subscription agreement, a call option agreement and certain equity transfer and asset transfer agreements) with JD.com ("JD.com Pre-IPO Subscription"), an online direct sales company operating in the PRC, to purchase 351,678,637 ordinary shares of JD.com, representing 15.0% of the outstanding JD.com ordinary shares immediately after the completion of the JD.com Pre-IPO Subscription, at a total consideration of net cash payment, certain eCommerce related businesses and assets of the Group, and 9.9% equity interest in Shanghai Icson E-commerce Development Company Limited ("Shanghai Icscon") with a call option granted to acquire the remaining equity interests held by the Group in Shanghai Icson at the higher of RMB800 million and then fair value of the interests. In addition, the Group entered into a strategic cooperation agreement with JD.com. On the same day, the Group also entered into an IPO share subscription agreement to agree to subscribe for a further 5.0% of the outstanding JD.com ordinary shares on a post IPO basis immediately after the consummation of the JD.com's IPO. The Group will account for the investment in JD.com as an investment in associate.

(b) Share subdivision plan

Pursuant to a resolution of the Board of the Company passed on 19 March 2014, a share subdivision plan was proposed that each of the existing issued and unissued ordinary shares of the Company at par value of HK$0.0001 each would be sub-divided into five shares at par value of HK$0.00002 each. The proposal is subject to the approval of the shareholders of the Company at AGM.

Definition

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

Term	Definition
"2007 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date I, as amended
"2013 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date II
"Account I"	the bank account opened in the name of the Company to be operated solely for the purposes of operating the 2007 Share Award Scheme and the funds thereof to be held on trust by the Company for the Selected Participants
"Account II"	the bank account opened in the name of the trust pursuant to Trust Deed II, managed by the Trustee, and operated solely for the purposes of operating the 2013 Share Award Scheme, which is held on trust for the benefit of Selected Participants and can be funded by the Company or any of its subsidiaries
"Adoption Date I"	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
"Adoption Date II"	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
"AGM"	the annual general meeting of the Company to be held on 14 May 2014 or any adjournment thereof
"Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Awarded Shares"	the shares of the Company awarded under the Share Award Schemes
"B2C"	business to consumer
"Beijing BIZCOM"	Beijing BIZCOM Technology Company Limited
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited
"Board"	the board of directors of the Company
"C2C"	consumer to consumer
"CEO"	chief executive officer
"CG Code"	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
"CIT"	corporate income tax
"Company"	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange

Term	Definition
"Company Website"	the website of the Company at www.tencent.com
"Corporate Governance Committee"	the corporate governance committee of the Company
"COSO Framework"	the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations
"CSC"	China South City Holdings Limited, a limited liability company incorporated in Hong Kong and the shares of which are listed on the Stock Exchange
"Cyber Shenzhen"	Tencent Cyber (Shenzhen) Company Limited
"Cyber Tianjin"	Tencent Cyber (Tianjin) Company Limited
"Dianping"	Dianping Holdings Ltd., a limited liability company incorporated in the Cayman Islands
"Dididache"	Xiaoju Science and Technology Limited, a limited liablility company incorporated in the Cayman Islands
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Eligible Person"	a person who is eligible to participate in the respective Share Award Schemes
"GAAP"	Generally Accepted Accounting Principles
"Grant Date"	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
"Group"	the Company and its subsidiaries
"Guangzhou Yunxun"	Guangzhou Yunxun Technology Company Limited
"HKD"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region, the PRC
"IA"	internal audit department of the Company
"IC"	internal control department of the Company

Term	Definition
"IFRS"	International Financial Reporting Standards
"IM"	Instant messaging
"Investment Committee"	the investment committee of the Company
"IPO"	initial public offering
"JD.com"	JD.com, Inc., a limited liability company incorporated in the Cayman Islands
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LoL"	League of Legends
"Mail.ru"	Mail.ru Group Limited
"MAU"	monthly active user accounts
"MIH TC"	MIH TC Holdings Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"New OPCOs"	Beijing Emark Information and Technology Co. Ltd., Wang Dian, Beijing BIZCOM, Beijing Starsinhand, Shenzhen Shiji Tian You Technology Company Limited, Guangzhou Yunxun, Shenzhen Dadi Tongtu Information Technology Company Limited, Shenzhen Shiji Huixiang Technology Company Limited, Shenzhen Shiji Tongxiang Technology Company Limited, Shenzhen Xinghuo Chuangxin Technology Company Limited, Shenzhen Xingguang Tongchuang Technology Company Limited, Shenzhen Tencent E-Commerce Information Technology Company Limited, Shenzhen Litong Industry Investment Fund Company Limited, Shenzhen Tencent Industry Investment Fund Company Limited and Shenzhen Shiji Kaihua Investment Fund Company Limited
"Nomination Committee"	the nomination committee of the Company
"O2O"	online to offline
"PC(s)"	personal computer(s)
"PCU"	peak concurrent user accounts

Term	Definition
"Post-IPO Option Scheme I"	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
"Post-IPO Option Scheme II"	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
"Post-IPO Option Scheme III"	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
"PRC" or "China"	the People's Republic of China
"Pre-IPO Option Scheme"	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
"Reference Date"	in respect to a Selected Participant, the date of final approval by the Board of the total number of shares of the Company to be awarded to the relevant Selected Participant on a single occasion pursuant to the 2007 Share Award Scheme
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	the lawful currency of the PRC
"Selected Participant(s)"	any Eligible Persons selected by the Board to participate in the respective Share Award Schemes
"SFO"	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share Award Schemes"	the share award scheme adopted by the Company on 13 December 2007, as amended, and the restricted share award scheme adopted by the Company on 13 November 2013
"Shiji Kaixuan"	Shenzhen Shiji Kaixuan Technology Company Limited
"SKT CFC"	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
"SKT Co-operation Committee"	the co-operation committee established under the SKT CFC
"Sogou"	Sogou Inc., a limited liability company incorporated in the Cayman Islands
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TCS CFC"	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer

Term	Definition
"TCS Co-operation Committee"	the co-operation committee established under the TCS CFC
"Tencent Beijing"	Tencent Technology (Beijing) Company Limited
"Tencent Charity Funds"	charity funds established by the Group
"Tencent Chengdu"	Tencent Technology (Chengdu) Company Limited
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited
"Tencent Shanghai"	Tencent Technology (Shanghai) Company Limited
"Tencent Technology"	Tencent Technology (Shenzhen) Company Limited
"Tencent Wuhan"	Tencent Technology (Wuhan) Company Limited
"Trust Deed I"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2007 Share Award Scheme
"Trust Deed II"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"VAS"	value-added services
"Wang Dian"	Nanjing Wang Dian Technology Company Limited
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Cyber Shenzhen, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan, G-I Growth (Shenzhen) Technology Limited, Tencent Cyber (Shenzhen-Shantou Special Cooperation Zone) Company Limited and Tencent E-Commerce Technology (Shenzhen) Limited
"Yixun"	Shanghai Icson E-Commerce Development Company Limited (上海易迅電子商務發展有限公司), a company formed under the laws of the PRC, a subsidiary of the Group

Tencent 腾讯

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