

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)

2019 Annual Report



smart communication inspires

智慧溝通 靈感無限

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Corporate Information

DIRECTORS

Executive Directors

Ma Huateng (*Chairman*)
Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker
Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone
Yang Siu Shun
Ke Yang
(appointed with effect from
15 August 2019)

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle (*Chairman*)
Iain Ferguson Bruce
Ian Charles Stone
Yang Siu Shun
Ke Yang
(appointed with effect from
15 August 2019)

INVESTMENT COMMITTEE

Lau Chi Ping Martin (*Chairman*)
Ma Huateng
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 (Koos) Bekker

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China Limited
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 Binhai Towers
No. 33 Haitian 2nd Road
Nanshan District
Shenzhen, 518054
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

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
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 | | | | |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2015 RMB'Million | 2016 RMB'Million | 2017 RMB'Million | 2018 RMB'Million | 2019 RMB'Million |
| Revenues | 102,863 | 151,938 | 237,760 | 312,694 | 377,289 |
| Gross profit | 61,232 | 84,499 | 116,925 | 142,120 | 167,533 |
| Profit before income tax | 36,216 | 51,640 | 88,215 | 94,466 | 109,400 |
| Profit for the year | 29,108 | 41,447 | 72,471 | 79,984 | 95,888 |
| Profit attributable to equity holders of the Company | 28,806 | 41,095 | 71,510 | 78,719 | 93,310 |
| Total comprehensive income for the year | 44,723 | 48,617 | 79,061 | 67,760 | 119,901 |
| Total comprehensive income attributable to equity holders of the Company | 44,416 | 48,194 | 78,218 | 66,339 | 116,670 |
| Non-IFRS profit attributable to equity holders of the Company | 32,410 | 45,420 | 65,126 | 77,469 | 94,351 |

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | As at 31 December | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2015 RMB'Million | 2016 RMB'Million | 2017 RMB'Million | 2018 RMB'Million | 2019 RMB'Million |
| Assets | | | | | |
| Non-current assets | 151,440 | 246,745 | 376,226 | 506,441 | 700,018 |
| Current assets | 155,378 | 149,154 | 178,446 | 217,080 | 253,968 |
| Total assets | 306,818 | 395,899 | 554,672 | 723,521 | 953,986 |
| Equity and liabilities | | | | | |
| Equity attributable to equity holders of the Company | 120,035 | 174,624 | 256,074 | 323,510 | 432,706 |
| Non-controlling interests | 2,065 | 11,623 | 21,019 | 32,697 | 56,118 |
| Total equity | 122,100 | 186,247 | 277,093 | 356,207 | 488,824 |
| Non-current liabilities | 60,312 | 108,455 | 125,839 | 164,879 | 225,006 |
| Current liabilities | 124,406 | 101,197 | 151,740 | 202,435 | 240,156 |
| Total liabilities | 184,718 | 209,652 | 277,579 | 367,314 | 465,162 |
| Total equity and liabilities | 306,818 | 395,899 | 554,672 | 723,521 | 953,986 |



Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2019 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2019 was RMB93,310 million, an increase of 19% compared with the results for the previous year. Basic and diluted EPS for the year ended 31 December 2019 were RMB9.856 and RMB9.643, respectively.

The Group's non-IFRS profit attributable to equity holders of the Company for the year ended 31 December 2019 was RMB94,351 million, an increase of 22% compared with the results for the previous year. Non-IFRS basic and diluted EPS for the year ended 31 December 2019 were RMB9.966 and RMB9.729, respectively.

OPERATING INFORMATION

| | As at 31 December 2019 | As at 31 December 2018 | Year-on- year change | As at 30 September 2019 | Quarter-on- quarter change |
|--|---------------------------------------|------------------------------|----------------------------|-------------------------------|----------------------------------|
| (in millions, unless specified) | | | | | |
| Combined MAU of Weixin and WeChat | 1,164.8 | 1,097.6 | 6.1% | 1,151.0 | 1.2% |
| Smart device MAU of QQ | 647.0 | 699.8 | -7.5% | 653.4 | -1.0% |
| Fee-based VAS registered subscriptions | 180.1 | 160.3 | 12.4% | 170.6 | 5.6% |



BUSINESS REVIEW AND OUTLOOK

Strategic Progress and Outlook

Our key strategic priorities include cultivating our leading position in the Consumer Internet, embracing opportunities brought by the Industrial Internet, and energizing our corporate culture. During 2019, we believe we made substantial progress on prominent aspects of our corporate strategy, and we see scope for further development, leading us to continue to evolve our plans as we try to tackle new challenges and seize new opportunities. Reviewing some of our important product areas and business lines:

Communication and Social

Our strategic focus in this business is strengthening connections between users via digital content, online services, and offline services, as well as enhancing connections with enterprises leveraging Mini Programs, Weixin Pay and WeChat Work.

In 2019, we provided Weixin users with convenient access to public services and healthcare content. We enriched content in Mini Programs and news feeds services in video format and enabled users to share short videos via Weishi within Moments. Weixin and WeChat engagement metrics stayed high as their active user base and user time spent increased. Daily messages sent were up 15% year-on-year for the fourth quarter of 2019. We rejuvenated QQ with enhanced chat features and friend recommendation, and we expanded entertainment use cases via Mini Games, increasing QQ's popularity among younger generations. Since the coronavirus outbreak, QQ School-plus-Home groups have served more than 120 million users, with optimised features such as live broadcast, online tutoring programs and online administrative tools for school routines to facilitate online and offline education. To strengthen our connections with enterprises, we facilitated discovery of merchants' Mini Programs and sales conversion by enhancing Weixin in-app search and live broadcast functions. The number of daily transactions generated within Mini Programs more than doubled year-on-year, and their transaction value exceeded RMB800 billion in 2019.

Looking forward, we seek to make our users' everyday life more convenient through our communication products, to develop the full potential of Mini Programs, and to introduce new social experiences enabled by technology innovations.



Chairman's Statement

Online Games

In our online games business, our strategic focus was on enhancing our internal R&D capability and external partnerships, and expanding our overseas business.

During 2019, we extended our China leadership and made notable progress in our overseas business, largely due to the success of our games PUBG Mobile and Call of Duty Mobile, as well as the new mode Teamfight Tactics within LoL. Our international games revenues more than doubled year-on-year, constituting 23% of our online games revenue in the fourth quarter of 2019. As of the end of 2019, five out of the top ten most-popular smart phone games by DAU internationally were developed by us. In addition to establishing our original IP franchises, we developed external partnerships via a number of new investments in best-in-genre studios. Key studios such as Timi and Lightspeed & Quantum under Tencent, as well as Riot Games and Supercell, have enhanced their R&D capability, and each have several promising games in its pipeline. We believe our studios are industry leaders on PC and smart phone games, and in genres such as multi-player battle arena and tactical tournament, but still have room to enhance our capabilities in other genres such as role-playing games. Leveraging our flagship games franchises, we strengthened our eSports global leadership with LoL's World Championship and Honour of Kings' KPL, which were the most watched events for PC and smart phone games, respectively.

Looking forward, we will seek to extend our domestic game industry leadership, reinforce our international efforts, and provide high quality new games globally.

Digital Content

In digital content, we focus on investing in digital content and growing our subscription business, and extending our franchise in long form video to short form video.

In 2019, our fee-based VAS subscriptions increased 12% year-on-year to 180 million. We experienced slower subscriber and revenue growth for our video subscription service in 2019 than 2018, reflecting delays in broadcasting key content; however our Tencent Video subscriptions reached 106 million, and we remained the clear industry leader in terms of content, users, and financial metrics, reducing our 2019 operating loss to below RMB3 billion, substantially lower than the loss rates of industry peers. We are increasingly skilled at commissioning and creating in-house content, especially in areas such as drama series, anime series, and variety shows. We have extended our owned IP, such as Joy of Life (慶餘年), from online novels into successful TV drama series. We accelerated our music subscriber growth in the second half of 2019, benefitting from the pay-for-streaming model. Our literature subscriber growth was weak for much of 2019 due to competition from free reading services, but we are seeing signs of improvement, as our Weixin Reading app becomes more popular, and as readers differentiate the generally higher quality of paid content.



During 2019, we have aggressively stepped up our investment in the short form video space, given users are spending substantial time watching such videos. As a result of our efforts, our short video app Weishi increased its DAU 80% and daily uploads 70% sequentially in the fourth quarter of 2019. We enhanced our video content recognition technology to enhance user content creation and make smarter content recommendations. We added innovative features such as video red packets to boost social video uploads and leveraged in-house IPs to support content creation by key opinion leaders (KOLs) and multi-channel networks (MCNs). We are in the early stages of what we expect to be a multi-year investment in short form video, but the fact that we overcame a late start in long form video to become the industry's leader, together with our ability to leverage our social network and media properties, and our substantial progress in recent months, gives us confidence in our long term prospects in short form video.

Online Advertising

In advertising, we seek to enhance our user targeting capability to increase ROIs (return on investments) for advertisers.

During the first half of 2019, weak macro-economic conditions and competition for advertising spending negatively impacted our advertising business. However, the unification of our advertising technology and sales teams, enhanced user targeting, as well as simplified inventories and advertiser tools enabled us to re-establish business momentum from the second half of 2019 in our core "social and others" advertising category, which accounted for the large majority of our total advertising revenue in the fourth quarter of 2019. Specifically, we extended the maximum number of ad impressions per user day in Weixin Moments from two to three in early 2019, and successfully tested a fourth impression in late 2019. Leveraging our data and technology, we believe we have taken substantial market share in ad networks, where we have experienced robust revenue growth and improved operating margin. Our media advertising business was hurt by delays in broadcasting certain drama series and less advertising activities around NBA basketball games.

Looking forward, we believe our competitive position in advertising has notably improved, and despite industry challenges, we enter 2020 with the right team and technology to enhance advertiser ROIs and increase our advertising market share, while continuing to provide appealing consumer experiences.



Chairman's Statement

FinTech

In FinTech, we strive to drive payment innovation, add payment use cases, and expand our wealth management portfolio.

During 2019, we strengthened our leadership in mobile payment services through deepening our penetration among offline merchants. In the fourth quarter of 2019, we exceeded 1 billion daily average transactions for our commercial payments, covered over 800 million monthly active users, and worked with over 50 million monthly active merchants. We launched Weixin Pay Scores which enhanced users' purchase propensity and loyalty to merchants through features such as waiving creditworthy users their deposits on some rental use cases. Our wealth management platform, LiCaiTong, increased its aggregate customer assets over 50% year-on-year, while its number of customers more than doubled year-on-year as we expanded into the mass market. Our affiliate WeBank rapidly grew the loan balances of its micro-loan product, WeiLiDai, within Weixin, while maintaining a healthy non-performing loan ratio.

Looking forward, we will seek to extend our payment use cases, provide new FinTech products and services, and enhance the underlying capabilities and stability of our platform.

Cloud and Business Services

In Cloud and Business Services, we focus on developing customized industry solutions, enabling our enterprise partners to better connect with our users, and assisting a range of industries in digital upgrades.

Our cloud services revenues exceeded RMB17 billion in 2019, as we consistently outgrew the market. Our number of paying customers exceeded 1 million, benefitting from enhanced sales team and deeper partnerships with system integrators. Gross margins improved as we optimized supply chains and expanded business scale. We increased our market share and gained presence in verticals such as Internet services, tourism, municipal services and industrial sectors, leveraging our consumer reach to assist enterprises in their digital upgrades. The COVID-19 pandemic is delaying customers' implementation of cloud-related initiatives and will thus negatively impact our near-term cloud services revenues, but we believe enterprises will be increasingly keen to adopt cloud-based solutions over the longer term, in order to facilitate remote working and remote interactions with their customers.



2020's COVID-19 pandemic highlights the utility of remote working and remote health care services, and we are seeking to play our part in helping people cope with the new challenge. Tencent Meeting exceeded 10 million DAUs within two months since its launch in late December 2019, by far the most-used dedicated video conferencing app in China. We deepened the integration between Weixin and WeChat Work to facilitate customer management and sales conversion, and millions of enterprises used WeChat Work to resume work in the wake of the coronavirus outbreak. Over 300 million Weixin users have utilized Tencent Health as an important access to real-time pandemic data, online consultation and AI-powered self-diagnosis services. We provided our medical AI imaging capabilities to assist diagnosis of coronavirus disease. We also offered reliable and professional medical information through Tencent Medipedia, and distributed pandemic-related content via multiple high-traffic platforms, such as Weixin and Tencent News, attracting over 600 million page views. Tencent Health Code becomes the most used ePass for verifying health and travel history during the outbreak. 900 million users across more than 300 cities and counties have used our Health Code since it was available in this February, with a total of 8 billion visits. Looking forward, we will seek to both meet the immediate needs for our products brought about by the pandemic, and develop our capabilities to anticipate and serve enterprises' long term demands as the economy digitizes.

Environmental, Social and Governance (“ESG”) Initiatives

We made notable progress on our ESG performance in 2019 in areas such as 1) technology education, 2) rural poverty alleviation, 3) environmental conservation, 4) cultural inheritance and 5) board diversity.

We inaugurated an Xplorer Prize with an initial funding of RMB1 billion, which has recognized 50 outstanding scientists, in order to support fundamental science and cutting-edge technology research.

WeCounty Platform, our initiative to facilitate digitalisation and thus poverty alleviation in China's rural areas, has connected 15,000 villages in 29 provinces, serving over 2.5 million villagers as at the end of 2019.

Energy consumption efficiency and the use of renewable energy in local power grids have become important components of our site selection criteria for data centers. In 2019, we piloted recycling of waste heat in our Tianjin Data Center, which will help reduce energy consumption by approximately 1,600 tons of coal each year. Our Guangming Data Center, located in Shenzhen, was rated as AAAAAA (the highest level) in the evaluation of green data centers organized by the Open Data Center Committee and other authorities, showcasing our leadership in energy saving.

On cultural preservation, we cooperated with renowned museums worldwide to promote cultural inheritance. In 2019, we deepened cooperation with the Palace Museum in Beijing to support the digitalization of 100,000 cultural relics in the next three years. We also established a partnership with National Museums Union of France (Réunion des Musées Nationaux) to build digital museums to bring Chinese national treasures around the world to our users.

More details are set out in the “Environmental, Social and Governance Report” on pages 97 to 126 of this annual report.



Chairman's Statement

Our signature charity event, the annual “99 Giving Day”, engaged 48 million netizens and over 2,500 enterprises, and raised approximately RMB2.5 billion in 2019. Tencent Group donated RMB850 million to the Tencent Foundation in 2019, bringing our cumulative donations to RMB4.3 billion.

We diversified our board with the inclusion of Professor Ke Yang, who broadens our board's perspectives and brings expertise in healthcare. She is the Director of Laboratory of Genetics of Peking University Cancer Hospital and an international member of the United States National Academy of Medicine.

As we entered 2020, we faced the challenges of the coronavirus pandemic, which has profoundly impacted the global economy. We responded by establishing a RMB1.5 billion emergency fund to offer relief support and by leveraging our cloud resources and technology to support pandemic-related program development and medical research. Our teams have worked relentlessly to upgrade our capabilities and products to update the public with authoritative news and information related to the pandemic, and to provide access to healthcare services, businesses and educational establishments with remote workplace and collaborative tools. We also cooperated with Dr. Zhong Nanshan to fund his coronavirus research and provided our medical AI imaging capabilities to assist developing a quick test for COVID-19. We believe these efforts embody our mission, “Value for Users, Tech for Good”.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.20 per share (2018: HKD1.00 per share) for the year ended 31 December 2019, subject to the approval of the shareholders at the 2020 AGM. Such proposed dividend will be payable on 29 May 2020 to the shareholders whose names appear on the register of members of the Company on 20 May 2020.

APPRECIATION

On behalf of the Board, I would like to express our heartfelt gratitude to our conscientious and professional staff and management team for their hard work during the past year. I would also like to extend our thanks and appreciation to our shareholders and stakeholders who continue to provide us with great support and confidence. We believe that our continued commitment to building an ecosystem in the Consumer Internet and Industrial Internet sectors that brings the needs of our users to the forefront will produce long-term value for our shareholders.

Ma Huateng

Chairman

Hong Kong, 18 March 2020



Management Discussion and Analysis

YEAR ENDED 31 DECEMBER 2019 COMPARED TO YEAR ENDED 31 DECEMBER 2018

The following table sets forth the comparative figures for the years ended 31 December 2019 and 2018:

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2019 | 2018 |
| | (RMB in millions) | |
| Revenues | 377,289 | 312,694 |
| Cost of revenues | (209,756) | (170,574) |
| Gross profit | 167,533 | 142,120 |
| Interest income | 6,314 | 4,569 |
| Other gains, net | 19,689 | 16,714 |
| Selling and marketing expenses | (21,396) | (24,233) |
| General and administrative expenses | (53,446) | (41,522) |
| Operating profit | 118,694 | 97,648 |
| Finance costs, net | (7,613) | (4,669) |
| Share of (loss)/profit of associates and joint ventures | (1,681) | 1,487 |
| Profit before income tax | 109,400 | 94,466 |
| Income tax expense | (13,512) | (14,482) |
| Profit for the year | 95,888 | 79,984 |
| Attributable to: | | |
| Equity holders of the Company | 93,310 | 78,719 |
| Non-controlling interests | 2,578 | 1,265 |
| | 95,888 | 79,984 |
| Non-IFRS profit attributable to equity holders of the Company | 94,351 | 77,469 |



Management Discussion and Analysis

Revenues. Revenues increased by 21% to RMB377.3 billion for the year ended 31 December 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2019 and 2018:

| | Year ended 31 December | | | |
|-------------------------------------|------------------------|---------------------|----------------------|-----------------------------------|
| | 2019 | | 2018 | |
| | Amount | % of total revenues | Amount (Restated) | % of total revenues (Restated) |
| (RMB in millions, unless specified) | | | | |
| VAS | 199,991 | 53% | 176,646 | 56% |
| FinTech and Business Services | 101,355 | 27% | 73,138 | 23% |
| Online Advertising | 68,377 | 18% | 58,079 | 19% |
| Others | 7,566 | 2% | 4,831 | 2% |
| Total revenues | <u>377,289</u> | <u>100%</u> | <u>312,694</u> | <u>100%</u> |

- Revenues from our VAS business increased by 13% year-on-year to RMB200 billion. Online games revenues grew by 10% to RMB114.7 billion. The increase was primarily due to revenue contributions from domestic smart phone games including Honour of Kings and Peacekeeper Elite, as well as increased contributions from our overseas titles such as PUBG Mobile and Supercell titles, partly offset by the revenue decline from PC client games such as DnF. Social networks revenues increased by 17% to RMB85,281 million. The increase mainly reflected revenue growth from digital content services such as live broadcast services and video streaming subscriptions.
- Revenues from FinTech and Business Services increased by 39% year-on-year to RMB101.4 billion. The increase was primarily driven by greater revenues from commercial payment due to increased daily active consumers and number of transactions per user. Greater revenues from cloud services also contributed to the annual growth.
- Revenues from Online Advertising business increased by 18% year-on-year to RMB68,377 million. Social and others advertising revenues grew by 33% to RMB52,897 million. The increase mainly reflected higher advertising revenues derived from Weixin (primarily Weixin Moments and Mini Programs) as a result of its increased inventories and impressions, as well as contributions from our mobile advertising network due to increased traffic and video inventories. Media advertising revenues decreased by 15% to RMB15,480 million. The decrease was primarily due to lower advertising revenues from our media platforms including Tencent Video and Tencent News resulting from unpredictability in broadcast schedules and the challenging macro-environment, as well as the absence of the FIFA World Cup in year 2019.



Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 23% year-on-year to RMB209.8 billion. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 56% for the year ended 31 December 2019 from 55% for the year ended 31 December 2018. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2019 and 2018:

| | Year ended 31 December | | | |
|-------------------------------------|------------------------|-----------------------------|----------------------|---|
| | 2019 | | 2018 | |
| | Amount | % of segment revenues | Amount (Restated) | % of segment revenues (Restated) |
| (RMB in millions, unless specified) | | | | |
| VAS | 94,086 | 47% | 73,961 | 42% |
| FinTech and Business Services | 73,831 | 73% | 54,598 | 75% |
| Online Advertising | 34,860 | 51% | 37,273 | 64% |
| Others | 6,979 | 92% | 4,742 | 98% |
| Total cost of revenues | <u>209,756</u> | | <u>170,574</u> | |

- Cost of revenues for VAS increased by 27% year-on-year to RMB94,086 million. The increase was mainly due to greater content costs for services and products such as live broadcast services, online games and video streaming subscriptions, as well as channel costs for smart phone games.
- Cost of revenues for FinTech and Business Services increased by 35% year-on-year to RMB73,831 million. The increase primarily reflected greater costs of payment-related and cloud services due to the enhanced scale of our payment and cloud activities.
- Cost of revenues for Online Advertising decreased by 6% year-on-year to RMB34,860 million. The decrease was mainly driven by lower content costs for our advertising-funded long form video service resulting from fewer content releases and improved cost efficiency, partly offset by other cost items.



Management Discussion and Analysis

Other gains, net. We recorded net other gains totalling RMB19,689 million for the year ended 31 December 2019, which primarily comprised of non-IFRS adjustment items such as fair value gains arising from increased valuations for certain investee companies in verticals such as FinTech services, social media and education, as well as net deemed disposal gains arising from the capital activities of certain investee companies in verticals including transportation services and online games.

Selling and marketing expenses. Selling and marketing expenses decreased by 12% to RMB21,396 million for the year ended 31 December 2019 on a year-on-year basis. The decrease was mainly due to the reduction of advertising and promotion expenses as a result of improved operational efficiencies. As a percentage of revenues, selling and marketing expenses decreased to 6% for the year ended 31 December 2019 from 8% for the year ended 31 December 2018.

General and administrative expenses. General and administrative expenses increased by 29% to RMB53,446 million for the year ended 31 December 2019 on a year-on-year basis. The increase was primarily driven by greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses increased to 14% for the year ended 31 December 2019 from 13% for the year ended 31 December 2018.

Finance costs, net. Net finance costs increased by 63% to RMB7,613 million for the year ended 31 December 2019 on a year-on-year basis. The increase primarily reflected greater interest expenses resulting from higher amounts of indebtedness.

Share of (loss)/profit of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB1,681 million for the year ended 31 December 2019, compared to share of profit of RMB1,487 million for the year ended 31 December 2018. The change was mainly due to non-cash charges booked by certain associates.

Income tax expense. Income tax expense decreased by 7% to RMB13,512 million for the year ended 31 December 2019 on a year-on-year basis. The decrease mainly reflected the entitlements of preferential tax treatments and benefits.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 19% to RMB93,310 million for the year ended 31 December 2019 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 22% to RMB94,351 million for the year ended 31 December 2019.



Management Discussion and Analysis

FOURTH QUARTER OF 2019 COMPARED TO FOURTH QUARTER OF 2018

The following table sets forth the comparative figures for the fourth quarter of 2019 and the fourth quarter of 2018:

| | Unaudited | |
|---|---------------------------|-------------|
| | Three months ended | |
| | 31 December | 31 December |
| | 2019 | 2018 |
| | (RMB in millions) | |
| Revenues | 105,767 | 84,896 |
| Cost of revenues | (59,659) | (49,744) |
| Gross profit | 46,108 | 35,152 |
| Interest income | 1,580 | 1,350 |
| Other gains/(losses), net | 3,630 | (2,139) |
| Selling and marketing expenses | (6,712) | (5,730) |
| General and administrative expenses | (16,002) | (11,345) |
| Operating profit | 28,604 | 17,288 |
| Finance costs, net | (2,767) | (1,372) |
| Share of (loss)/profit of associates and joint ventures | (1,328) | 16 |
| Profit before income tax | 24,509 | 15,932 |
| Income tax expense | (2,137) | (1,906) |
| Profit for the period | 22,372 | 14,026 |
| Attributable to: | | |
| Equity holders of the Company | 21,582 | 14,229 |
| Non-controlling interests | 790 | (203) |
| | 22,372 | 14,026 |
| Non-IFRS profit attributable to equity holders of the Company | 25,484 | 19,730 |



Management Discussion and Analysis

Revenues. Revenues increased by 25% to RMB105.8 billion for the fourth quarter of 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2019 and the fourth quarter of 2018:

| | Unaudited | | | |
|-------------------------------------|--------------------|---------------------|----------------------|-----------------------------------|
| | Three months ended | | | |
| | 31 December 2019 | | 31 December 2018 | |
| | Amount | % of total revenues | Amount (Restated) | % of total revenues (Restated) |
| (RMB in millions, unless specified) | | | | |
| VAS | 52,308 | 50% | 43,651 | 51% |
| FinTech and Business Services | 29,920 | 28% | 21,597 | 26% |
| Online Advertising | 20,225 | 19% | 17,033 | 20% |
| Others | 3,314 | 3% | 2,615 | 3% |
| Total revenues | 105,767 | 100% | 84,896 | 100% |

- Revenues from VAS increased by 20% to RMB52,308 million for the fourth quarter of 2019 on a year-on-year basis. Online games revenues grew by 25% to RMB30,286 million. The increase was primarily driven by revenue growth from smart phone games in both domestic and overseas markets, including titles such as Peacekeeper Elite and PUBG Mobile, as well as revenue contributions from Supercell titles, partly offset by lower revenues from PC client games such as DnF. Social networks revenues increased by 13% to RMB22,022 million. The increase mainly reflected greater contributions from digital content services such as live broadcast and music streaming services. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB26,035 million and PC client games revenues were RMB10,359 million for the fourth quarter of 2019.
- Revenues from FinTech and Business Services increased by 39% to RMB29,920 million for the fourth quarter of 2019 on a year-on-year basis. The increase was primarily due to greater revenue contributions from commercial payment, as well as revenue growth from cloud services as a result of deeper penetration in key verticals.
- Revenues from Online Advertising increased by 19% to RMB20,225 million for the fourth quarter of 2019 on a year-on-year basis. Social and others advertising revenues increased by 37% to RMB16,274 million. The increase was mainly driven by advertising revenue growth from Weixin Moments and our mobile advertising network. Media advertising revenues decreased by 24% to RMB3,951 million. The decrease primarily reflected lower advertising revenues from our media platforms including Tencent Video and Tencent News due to uncertain broadcasting schedules and fewer telecasts of sports events.



Management Discussion and Analysis

Cost of revenues. Cost of revenues increased by 20% to RMB59,659 million for the fourth quarter of 2019 on a year-on-year basis. The increase was mainly due to greater costs of FinTech services, channel costs and content costs. As a percentage of revenues, cost of revenues decreased to 56% for the fourth quarter of 2019 from 59% for the fourth quarter of 2018. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2019 and the fourth quarter of 2018:

| | Unaudited | | | |
|-------------------------------------|--------------------|-----------------------|------------------|-----------------------|
| | Three months ended | | | |
| | 31 December 2019 | | 31 December 2018 | |
| | Amount | % of segment revenues | Amount | % of segment revenues |
| | | | (Restated) | (Restated) |
| (RMB in millions, unless specified) | | | | |
| VAS | 26,120 | 50% | 20,330 | 47% |
| FinTech and Business Services | 21,520 | 72% | 16,310 | 76% |
| Online Advertising | 9,241 | 46% | 10,800 | 63% |
| Others | 2,778 | 84% | 2,304 | 88% |
| Total cost of revenues | 59,659 | | 49,744 | |

- Cost of revenues for VAS increased by 28% to RMB26,120 million for the fourth quarter of 2019 on a year-on-year basis. The increase mainly reflected greater channel costs for smart phone games due to increased revenues, including the channel costs attributable to Supercell, as well as higher content costs for services and products such as live broadcast services, online games and music streaming.
- Cost of revenues for FinTech and Business Services increased by 32% to RMB21,520 million for the fourth quarter of 2019 on a year-on-year basis. The increase was primarily driven by scale expansion of our payment-related services and cloud business.
- Cost of revenues for Online Advertising decreased by 14% to RMB9,241 million for the fourth quarter of 2019 on a year-on-year basis. The decrease was mainly due to lower content costs for video advertising as a result of fewer major content releases, and to cost management.



Management Discussion and Analysis

Other gains, net. We recorded net other gains of RMB3,630 million for the fourth quarter of 2019, which mainly comprised of non-IFRS adjustment items such as fair value gains due to increases in valuations of certain investee companies in verticals such as social media and FinTech services.

Selling and marketing expenses. Selling and marketing expenses increased by 17% to RMB6,712 million for the fourth quarter of 2019 on a year-on-year basis. The increase was mainly driven by greater marketing spending on services and products such as FinTech and cloud services, smart phone games and digital content services, including expenses attributable to Supercell. As a percentage of revenues, selling and marketing expenses decreased to 6% for the fourth quarter of 2019 from 7% for the fourth quarter of 2018.

General and administrative expenses. General and administrative expenses increased by 41% to RMB16,002 million for the fourth quarter of 2019 on a year-on-year basis. The increase was mainly due to greater R&D expenses and staff costs, including expenses attributable to Supercell. As a percentage of revenues, general and administrative expenses increased to 15% for the fourth quarter of 2019 from 13% for the fourth quarter of 2018.

Finance costs, net. Net finance costs increased by 102% to RMB2,767 million for the fourth quarter of 2019 on a year-on-year basis. The increase was primarily driven by greater interest expenses as a result of higher amount of indebtedness.

Share of (loss)/profit of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB1,328 million for the fourth quarter of 2019, compared to share of profit of RMB16 million for the fourth quarter of 2018. The change was mainly due to share of losses arising from non-cash fair value changes of investment portfolios booked by certain associates in the fourth quarter of 2019, compared to share of profit recorded in the same quarter last year.

Income tax expense. Income tax expense increased by 12% to RMB2,137 million for the fourth quarter of 2019 on a year-on-year basis.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 52% to RMB21,582 million for the fourth quarter of 2019 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 29% to RMB25,484 million for the fourth quarter of 2019.



Management Discussion and Analysis

FOURTH QUARTER OF 2019 COMPARED TO THIRD QUARTER OF 2019

The following table sets forth the comparative figures for the fourth quarter of 2019 and the third quarter of 2019:

| | Unaudited | |
|---|---------------------------|---------------------|
| | Three months ended | |
| | 31 December | 30 September |
| | 2019 | 2019 |
| | (RMB in millions) | |
| Revenues | 105,767 | 97,236 |
| Cost of revenues | (59,659) | (54,757) |
| Gross profit | 46,108 | 42,479 |
| Interest income | 1,580 | 1,674 |
| Other gains, net | 3,630 | 932 |
| Selling and marketing expenses | (6,712) | (5,722) |
| General and administrative expenses | (16,002) | (13,536) |
| Operating profit | 28,604 | 25,827 |
| Finance costs, net | (2,767) | (1,747) |
| Share of (loss)/profit of associates and joint ventures | (1,328) | 234 |
| Profit before income tax | 24,509 | 24,314 |
| Income tax expense | (2,137) | (3,338) |
| Profit for the period | 22,372 | 20,976 |
| Attributable to: | | |
| Equity holders of the Company | 21,582 | 20,382 |
| Non-controlling interests | 790 | 594 |
| | 22,372 | 20,976 |
| Non-IFRS profit attributable to equity holders of the Company | 25,484 | 24,412 |



Management Discussion and Analysis

Revenues. Revenues increased by 9% to RMB105.8 billion for the fourth quarter of 2019 on a quarter-on-quarter basis.

- Revenues from VAS increased by 3% to RMB52,308 million for the fourth quarter of 2019. Online games revenues grew by 6% to RMB30,286 million. The increase was primarily due to revenue contributions from domestic smart phone titles such as Peacekeeper Elite, as well as revenues contributed from Supercell commencing in the fourth quarter of 2019, partly offset by the decrease in revenues from PC client games. Social networks revenues were RMB22,022 million, broadly stable compared to the third quarter of 2019.
- Revenues from FinTech and Business Services increased by 12% to RMB29,920 million for the fourth quarter of 2019. The increase mainly reflected the growth of commercial payment, social payment and cloud services.
- Revenues from Online Advertising increased by 10% to RMB20,225 million for the fourth quarter of 2019. Social and others advertising revenues grew by 11% to RMB16,274 million. The increase was primarily driven by greater revenues from our mobile advertising network and Weixin Moments, benefitting from the positive seasonality of eCommerce promotional activities in the fourth quarter. Media advertising revenues increased by 8% to RMB3,951 million. The increase mainly reflected greater advertising revenues from our media platforms including Tencent Video, Tencent News and TME.

Cost of revenues. Cost of revenues increased by 9% to RMB59,659 million for the fourth quarter of 2019 on a quarter-on-quarter basis. The increase was primarily driven by greater channel costs, costs of FinTech services and content costs. As a percentage of revenues, cost of revenues was 56% for the fourth quarter of 2019, broadly stable compared to the third quarter of 2019.

- Cost of revenues for VAS increased by 7% to RMB26,120 million for the fourth quarter of 2019. The increase was primarily due to greater content costs for live broadcast services and major eSport events, as well as higher channel and content costs for smart phone games, including the channel costs attributable to Supercell.
- Cost of revenues for FinTech and Business Services increased by 11% to RMB21,520 million for the fourth quarter of 2019. The increase mainly reflected greater costs from increased volume of payment activities and greater scale of cloud services.
- Cost of revenues for Online Advertising decreased by 2% to RMB9,241 million for the fourth quarter of 2019. The decrease was primarily driven by lower content costs for our advertising-funded long form video service, partly offset by traffic acquisition costs due to revenue growth from our advertising network.

Selling and marketing expenses. Selling and marketing expenses increased by 17% to RMB6,712 million for the fourth quarter of 2019 on a quarter-on-quarter basis. The increase mainly reflected seasonally greater marketing spending on smart phone games and digital content services, as well as expenses attributable to Supercell.



Management Discussion and Analysis

General and administrative expenses. General and administrative expenses increased by 18% to RMB16,002 million for the fourth quarter of 2019 on a quarter-on-quarter basis. The increase was mainly due to greater R&D expenses and staff costs, including expenses attributable to Supercell.

Share of (loss)/profit of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB1,328 million for the fourth quarter of 2019, compared to share of profit of RMB234 million for the third quarter of 2019. The movement mainly reflected certain associates booking non-cash fair value changes to their investment portfolios.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 6% to RMB21,582 million for the fourth quarter of 2019 on a quarter-on-quarter basis. Non-IFRS profit attributable to equity holders of the Company increased by 4% to RMB25,484 million.

OTHER FINANCIAL INFORMATION

| | Unaudited | | | Year ended | |
|-------------------------------------|---------------------|----------------------|---------------------|-----------------|----------|
| | Three months ended | | | 31 December | |
| | 31 December 2019 | 30 September 2019 | 31 December 2018 | 2019 | 2018 |
| (RMB in millions, unless specified) | | | | | |
| EBITDA (a) | 35,675 | 35,378 | 27,180 | 137,268 | 110,404 |
| Adjusted EBITDA (a) | 38,572 | 38,123 | 29,701 | 147,395 | 118,273 |
| Adjusted EBITDA margin (b) | 36% | 39% | 35% | 39% | 38% |
| Interest and related expenses | 2,348 | 2,086 | 1,345 | 7,690 | 4,898 |
| Net debt (c) | (15,552) | (7,173) | (12,170) | (15,552) | (12,170) |
| Capital expenditures (d) | 16,869 | 6,632 | 4,564 | 32,369 | 23,941 |

Note:

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



Management Discussion and Analysis

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

| | Unaudited | | | Year ended | |
|---|----------------|-------------------------------------|-------------|-----------------|----------|
| | 31 December | Three months ended | 31 December | 31 December | |
| | 2019 | 30 September | 2018 | 2019 | 2018 |
| | | 2019 | | | |
| | | (RMB in millions, unless specified) | | | |
| Operating profit | 28,604 | 25,827 | 17,288 | 118,694 | 97,648 |
| Adjustments: | | | | | |
| Interest income | (1,580) | (1,674) | (1,350) | (6,314) | (4,569) |
| Other (gains)/losses, net | (3,630) | (932) | 2,139 | (19,689) | (16,714) |
| Depreciation of property, plant and equipment and investment properties | 3,549 | 3,232 | 2,520 | 12,574 | 8,423 |
| Depreciation of right-of-use assets | 893 | 806 | – | 3,049 | – |
| Amortisation of intangible assets | 7,839 | 8,119 | 6,583 | 28,954 | 25,616 |
| EBITDA | 35,675 | 35,378 | 27,180 | 137,268 | 110,404 |
| Equity-settled share-based compensation | 2,897 | 2,745 | 2,521 | 10,127 | 7,869 |
| Adjusted EBITDA | 38,572 | 38,123 | 29,701 | 147,395 | 118,273 |

NON-IFRS FINANCIAL MEASURES

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



Management Discussion and Analysis

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

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the fourth quarter of 2019 and 2018, the third quarter of 2019, and the years ended 31 December 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

| | Unaudited three months ended 31 December 2019 | | | | | | |
|---------------------------------------|---|--------------------------|---|-----------------------------------|-----------------------|--------------------|----------|
| | Adjustments | | | | | | |
| | As reported | Share-based compensation | Net (gains)/ losses from investee companies | Amortisation of intangible assets | Impairment provisions | Income tax effects | Non-IFRS |
| | | (a) | (b) | (c) | (d) | (e) | |
| | (RMB in millions, unless specified) | | | | | | |
| Operating profit | 28,604 | 3,269 | (2,340) | 701 | 72 | – | 30,306 |
| Profit for the period | 22,372 | 3,965 | (1,412) | 1,667 | 140 | (93) | 26,639 |
| Profit attributable to equity holders | 21,582 | 3,756 | (1,403) | 1,406 | 133 | 10 | 25,484 |
| EPS (RMB per share) | | | | | | | |
| – basic | 2.278 | | | | | | 2.690 |
| – diluted | 2.248 | | | | | | 2.643 |
| Operating margin | 27% | | | | | | 29% |
| Net margin | 21% | | | | | | 25% |



Management Discussion and Analysis

Unaudited three months ended 30 September 2019

| | Adjustments | | | | | | Non-IFRS |
|---------------------------------------|-------------|--------------------------|---|-----------------------------------|-----------------------|--------------------|----------|
| | As reported | Share-based compensation | Net (gains)/ losses from investee companies | Amortisation of intangible assets | Impairment provisions | Income tax effects | |
| | (a) | (b) | (c) | (d) | (e) | | |
| (RMB in millions, unless specified) | | | | | | | |
| Operating profit | 25,827 | 2,745 | (1,814) | 118 | 1,668 | – | 28,544 |
| Profit for the period | 20,976 | 3,568 | (2,509) | 1,544 | 1,981 | (474) | 25,086 |
| Profit attributable to equity holders | 20,382 | 3,475 | (2,444) | 1,491 | 1,971 | (463) | 24,412 |
| EPS (RMB per share) | | | | | | | |
| – basic | 2.151 | | | | | | 2.577 |
| – diluted | 2.127 | | | | | | 2.548 |
| Operating margin | 27% | | | | | | 29% |
| Net margin | 22% | | | | | | 26% |

Unaudited three months ended 31 December 2018

| | Adjustments | | | | | | Non-IFRS |
|---------------------------------------|-------------|--------------------------|---|-----------------------------------|-----------------------|--------------------|----------|
| | As reported | Share-based compensation | Net (gains)/ losses from investee companies | Amortisation of intangible assets | Impairment provisions | Income tax effects | |
| | (a) | (b) | (c) | (d) | (e) | | |
| (RMB in millions, unless specified) | | | | | | | |
| Operating profit | 17,288 | 2,459 | 1,579 | 198 | 864 | – | 22,388 |
| Profit for the period | 14,026 | 3,579 | 583 | 1,927 | 938 | (813) | 20,240 |
| Profit attributable to equity holders | 14,229 | 3,504 | (60) | 1,839 | 1,013 | (795) | 19,730 |
| EPS (RMB per share) | | | | | | | |
| – basic | 1.505 | | | | | | 2.087 |
| – diluted | 1.489 | | | | | | 2.065 |
| Operating margin | 20% | | | | | | 26% |
| Net margin | 17% | | | | | | 24% |



Management Discussion and Analysis

Year ended 31 December 2019

| | Adjustments | | | | | | Non-IFRS |
|---------------------------------------|-------------------------------------|------------------------------|---|---------------------------------------|---------------------------|------------------------|----------|
| | As reported | Share-based compensation (a) | Net (gains)/ losses from investee companies (b) | Amortisation of intangible assets (c) | Impairment provisions (d) | Income tax effects (e) | |
| | (RMB in millions, unless specified) | | | | | | |
| Operating profit | 118,694 | 10,500 | (19,650) | 1,051 | 4,006 | – | 114,601 |
| Profit for the year | 95,888 | 12,774 | (20,818) | 5,781 | 5,202 | (1,238) | 97,589 |
| Profit attributable to equity holders | 93,310 | 12,309 | (20,720) | 5,362 | 5,185 | (1,095) | 94,351 |
| EPS (RMB per share) | | | | | | | |
| – basic | 9.856 | | | | | | 9.966 |
| – diluted | 9.643 | | | | | | 9.729 |
| Operating margin | 31% | | | | | | 30% |
| Net margin | 25% | | | | | | 26% |

Year ended 31 December 2018

| | Adjustments | | | | | | Non-IFRS |
|---------------------------------------|-------------------------------------|------------------------------|---|---------------------------------------|---------------------------|------------------------|----------|
| | As reported | Share-based compensation (a) | Net (gains)/ losses from investee companies (b) | Amortisation of intangible assets (c) | Impairment provisions (d) | Income tax effects (e) | |
| | (RMB in millions, unless specified) | | | | | | |
| Operating profit | 97,648 | 7,900 | (31,168) | 524 | 17,577 | – | 92,481 |
| Profit for the year | 79,984 | 11,354 | (32,513) | 4,251 | 17,741 | (525) | 80,292 |
| Profit attributable to equity holders | 78,719 | 11,025 | (33,073) | 4,027 | 17,238 | (467) | 77,469 |
| EPS (RMB per share) | | | | | | | |
| – basic | 8.336 | | | | | | 8.203 |
| – diluted | 8.228 | | | | | | 8.097 |
| Operating margin | 31% | | | | | | 30% |
| Net margin | 26% | | | | | | 26% |



Management Discussion and Analysis

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives.
- (b) Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies.
- (c) Amortisation of intangible assets resulting from acquisitions.
- (d) Impairment provisions for associates, joint ventures and intangible assets arising from acquisitions.
- (e) Income tax effects of non-IFRS adjustments.

INVESTMENTS HELD

As at 31 December 2019, our investment portfolio amounted to approximately RMB439,551 million (31 December 2018: RMB369,186 million) as recorded in the consolidated statement of financial position under various categories including:

- investments in associates and joint ventures which are accounted for by using equity method;
- financial assets at fair value through profit or loss and through other comprehensive income.

Changes in respective items in the consolidated statement of financial position have been disclosed in the notes to the consolidated financial information in this annual report.

We manage our investment portfolio with a primary objective to strengthen our leading position in core businesses and complement our “Connection” strategy in various industries, particularly in social and digital content, O2O and smart retail sectors. We also invest in transportation, FinTech, cloud and other sectors.

The fair value of our stakes in listed investee companies (excluding subsidiaries) amounted to RMB419,818 million as at 31 December 2019 (31 December 2018: RMB238,040 million). Other than Meituan Dianping as disclosed in Note 21 to the consolidated financial statements, none of the carrying amount of any of our investments (including listed investee companies) constitutes 5% or more of our total assets as at 31 December 2019.

Save as disclosed herein, there are no material changes in our investment portfolio affecting the Company's performance that need to be disclosed under paragraph 32 of Appendix 16 to the Listing Rules.



Management Discussion and Analysis

Return from our investment portfolio amounted to RMB13,926 million for the year ended 31 December 2019, with a decrease of 17% compared to last year. Details of return from our investment portfolio are as follows:

| Income of Principal Investment (Classified by nature of income) | 2019 RMB'Million | 2018 RMB'Million |
|---|-----------------------------|-----------------------------|
| Dividend income | 1,014 | 686 |
| Net gains on disposals and deemed disposals of investee companies | 8,492 | 2,932 |
| Net fair value gains | 11,158 | 29,757 |
| Impairment provision for investee companies and intangible assets from acquisitions | (4,006) | (17,577) |
| Share of (loss)/profit of associates and joint ventures | (1,681) | 1,487 |
| Amortisation of intangible assets resulting from acquisitions | (1,051) | (524) |

We continue to closely monitor the performance of our investment portfolio and strategically make investments, M&A, and explore opportunities in monetising some of the existing investments if appropriate opportunities in the market arise.

LIQUIDITY AND FINANCIAL RESOURCES

Our cash positions as at 31 December 2019 and 30 September 2019 are as follows:

| | Audited 31 December 2019 (RMB in millions) | Unaudited 30 September 2019 |
|--|---|--|
| Cash and cash equivalents | 132,991 | 145,607 |
| Term deposits and others | 72,270 | 54,499 |
| | 205,261 | 200,106 |
| Borrowings | (126,952) | (112,148) |
| Notes payable | (93,861) | (95,131) |
| Net debt | (15,552) | (7,173) |
| Fair value of our stakes in listed investee companies (excluding subsidiaries) | 419,818 | 352,656 |

As at 31 December 2019, the Group had net debt of RMB15,552 million, compared to net debt of RMB7,173 million as at 30 September 2019. The sequential increase in indebtedness mainly reflected payments for M&A initiatives and media contents, as well as the consolidation of indebtedness at Haili, partly offset by strong free cash flow generation.

For the fourth quarter of 2019, the Group had free cash flow of RMB37,896 million. This was a result of net cash flow generated from operating activities of RMB50,604 million, offset by payments for capital expenditure of RMB12,708 million.



Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 47 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 137 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 2019. The dividend is expected to be payable on 29 May 2020 to the shareholders whose names appear on the register of members of the Company on 20 May 2020. 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 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 2019, the Company had distributable reserves amounting to RMB34,169 million (2018: RMB28,385 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 141 to 144, Note 32, Note 33 and Note 46 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.



BUSINESS REVIEW AND DIVIDEND

A fair review of the business of the Group, comprising a discussion and analysis of the Group's performance during the year, particulars of important events affecting the Group that have occurred since the end of the financial year 2019 and an indication of likely future development in the business of the Group as well as the proposed dividend for the year ended 31 December 2019 are set out in the "Chairman's Statement" on pages 4 to 10 of this annual report. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 11 to 27 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are set out in the "Environmental, Social and Governance Report" on pages 97 to 126 of this annual report. Details regarding the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are also set out in the "Environmental, Social and Governance Report" on pages 97 to 126 and the "Corporate Governance Report" on pages 70 to 96 as well as on page 67 of this annual report. A description of the principal risks and uncertainties facing the Group is set out in the "Corporate Governance Report" on pages 70 to 96 of this annual report. All such discussions form part of this report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 32 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2019 are set out in Note 47 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings and notes payable are set out in Note 35 and Note 36 to the consolidated financial statements respectively.

DONATION

The donation made by the Group to Tencent Charity Funds in the year was RMB850 million.

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.



Directors' Report

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

During the year ended 31 December 2019, the Company repurchased 3,486,700 shares on the Stock Exchange for an aggregate consideration of approximately HKD1.16 billion before expenses. The repurchased shares were subsequently cancelled. The repurchase was 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 2019 | No. of shares purchased | Purchase consideration per share | | Aggregate consideration paid |
|---------------------------|----------------------------|----------------------------------|-----------------------------|------------------------------------|
| | | Highest price paid HKD | Lowest price paid HKD | |
| August | 362,200 | 327.00 | 312.40 | 116,330,916 |
| September | 2,294,500 | 351.00 | 323.60 | 776,104,729 |
| October | <u>830,000</u> | 327.80 | 317.40 | <u>268,272,462</u> |
| Total: | <u>3,486,700</u> | | | <u>1,160,708,107</u> |

Save as disclosed above and in Note 32 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 2019.

ISSUANCE OF DEBT SECURITIES

On 11 April 2019, the Company issued five tranches of senior notes under the Global Medium Term Note Programme for the Company's general corporate purposes. Details of the issuance of debt securities are set out in Note 36 to the consolidated financial statements.



USE OF PROCEEDS FROM IPO OF NON-WHOLLY OWNED SUBSIDIARY

The use of proceeds from the IPO of TME and China Literature, our non-wholly owned subsidiaries, are set out below:

TME

The American depository shares of TME were listed on the New York Stock Exchange on 12 December 2018 and the net proceeds raised by TME during its IPO were approximately USD509 million (equivalent to approximately RMB3,500 million).

As at 31 December 2019, TME has not yet used any of the proceeds received from the IPO. TME will apply the net proceeds in the manner as set out in its IPO prospectus.

China Literature

The shares of China Literature were listed on the Stock Exchange on 8 November 2017 and the net proceeds raised by China Literature during its IPO were approximately HKD7,235 million (equivalent to approximately RMB6,145 million).

As at 31 December 2019, China Literature had used:

- approximately RMB1,015 million for expanding its online reading business and sales and marketing activities;
- approximately RMB1,352 million for expanding its involvement in the development of derivative entertainment products adapted from its online literary titles;
- approximately RMB1,843 million for funding its potential investments, acquisitions and strategic alliances; and
- approximately RMB615 million for working capital and general corporate purposes.

The remaining balance of the net proceeds was placed with banks. China Literature will apply the remaining net proceeds in the manner as set out in its IPO prospectus.



Directors' Report

SHARE OPTION SCHEMES

The Company has adopted five share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV. The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019 respectively.

As at 31 December 2019, there were a total of 20,722,380 outstanding share options granted to a director of the Company, details of which are as follows:

| Name of director | Date of grant | Number of share options | | | As at 31 December 2019 | Exercise price HKD | Exercise period |
|---------------------|---------------|----------------------------|-------------------------------|---------------------------------|------------------------------|--------------------------|--|
| | | As at 1 January 2019 | Granted during the year | Exercised during the year | | | |
| Lau Chi Ping Martin | 25 March 2014 | 5,000,000 | – | – | 5,000,000 | 114.52 | 25 March 2015 to 24 March 2021 (Note 1) |
| | 21 March 2016 | 3,750,000 | – | – | 3,750,000 | 158.10 | 21 March 2017 to 20 March 2023 (Note 2) |
| | 24 March 2017 | 5,250,000 | – | – | 5,250,000 | 225.44 | 24 March 2018 to 23 March 2024 (Note 2) |
| | 9 April 2018 | 3,215,800 | – | – | 3,215,800 | 410.00 | 9 April 2019 to 8 April 2025 (Note 2) |
| | 4 April 2019 | – | 3,506,580 (Note 3) | – | 3,506,580 | 376.00 | 4 April 2020 to 3 April 2026 (Note 2) |
| | Total: | <u>17,215,800</u> | <u>3,506,580</u> | <u>–</u> | <u>20,722,380</u> | | |

Note:

- For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- The closing price immediately before the date on which the options were granted on 4 April 2019 was HKD378.
- No options were cancelled or lapsed during the year.



Details of movements of share options granted to employees of the Group (apart from director(s) of the Company) during the year ended 31 December 2019 are as follows:

| Date of grant | Number of share options | | | | As at 31 December 2019 | Exercise price HKD | Exercise period |
|---------------|----------------------------|-------------------------------|--|--|------------------------------|--------------------------|-------------------------------------|
| | As at 1 January 2019 | Granted during the year | Exercised during the year (Note 14) | Lapsed/ forfeited during the year | | | |
| | | | | | | | |
| 13 Sep 2012 | 22,875 | – | 22,875 | – | – | 49.76 | 13 Sep 2013 to 12 Sep 2019 (Note 3) |
| 25 Mar 2014 | 2,542,500 | – | 42,500 | – | 2,500,000 | 114.52 | 25 Mar 2015 to 24 Mar 2021 (Note 2) |
| 25 Mar 2014 | 3,145,000 | – | 350,000 | – | 2,795,000 | 114.52 | 25 Mar 2015 to 24 Mar 2021 (Note 3) |
| 22 May 2014 | 62,500 | – | 30,000 | – | 32,500 | 112.30 | 22 May 2015 to 21 May 2021 (Note 2) |
| 10 Jul 2014 | 642,339 | – | 123,625 | – | 518,714 | 124.30 | 10 Jul 2015 to 9 Jul 2021 (Note 4) |
| 12 Dec 2014 | 40,350 | – | – | – | 40,350 | 116.40 | 12 Dec 2016 to 11 Dec 2021 (Note 5) |
| 2 Apr 2015 | 525,000 | – | – | – | 525,000 | 149.80 | 2 Apr 2016 to 1 Apr 2022 (Note 4) |
| 10 Jul 2015 | 555,029 | – | 111,370 | 1,225 | 442,434 | 148.90 | 10 Jul 2016 to 9 Jul 2022 (Note 4) |
| 21 Mar 2016 | 6,125,000 | – | – | – | 6,125,000 | 158.10 | 21 Mar 2017 to 20 Mar 2023 (Note 4) |
| 6 Jul 2016 | 1,116,817 | – | 84,060 | – | 1,032,757 | 174.86 | 6 Jul 2017 to 5 Jul 2023 (Note 4) |
| 24 Mar 2017 | 1,292,850 | – | 199,555 | – | 1,093,295 | 225.44 | 24 Mar 2018 to 23 Mar 2024 (Note 1) |
| 24 Mar 2017 | 21,428,750 | – | 175,000 | – | 21,253,750 | 225.44 | 24 Mar 2018 to 23 Mar 2024 (Note 4) |
| 10 Jul 2017 | 13,405 | – | – | – | 13,405 | 272.36 | 10 Jul 2018 to 9 Jul 2024 (Note 2) |
| 10 Jul 2017 | 8,458,149 | – | 473,556 | 170,000 | 7,814,593 | 272.36 | 10 Jul 2018 to 9 Jul 2024 (Note 4) |
| 10 Jul 2017 | 25,340 | – | 200 | – | 25,140 | 272.36 | 10 Jul 2019 to 9 Jul 2024 (Note 5) |
| 10 Jul 2017 | 7,455 | – | – | 7,455 | – | 272.36 | 10 Jul 2020 to 9 Jul 2024 (Note 6) |
| 23 Nov 2017 | 89,565 | – | – | – | 89,565 | 419.60 | 23 Nov 2018 to 22 Nov 2024 (Note 2) |



Directors' Report

| Date of grant | Number of share options | | | | As at 31 December 2019 | Exercise price HKD | Exercise period |
|---------------|----------------------------|-------------------------------|--|--|------------------------------|--------------------------|---|
| | As at 1 January 2019 | Granted during the year | Exercised during the year (Note 14) | Lapsed/ forfeited during the year | | | |
| | | | | | | | |
| 16 Jan 2018 | 155,050 | – | – | – | 155,050 | 444.20 | 16 Jan 2019 to 15 Jan 2025 (Note 2) |
| 9 Apr 2018 | 2,082,920 | – | – | 5,285 | 2,077,635 | 410.00 | 9 Apr 2019 to 8 Apr 2025 (Note 1) |
| 9 Apr 2018 | 235,515 | – | – | – | 235,515 | 410.00 | 9 Apr 2019 to 8 Apr 2025 (Note 2) |
| 9 Apr 2018 | 16,692,585 | – | – | – | 16,692,585 | 410.00 | 9 Apr 2019 to 8 Apr 2025 (Note 4) |
| 24 May 2018 | 26,390 | – | – | – | 26,390 | 407.00 | 24 May 2019 to 23 May 2025 (Note 2) |
| 22 Jun 2018 | 13,055 | – | – | – | 13,055 | 403.16 | 22 Jun 2019 to 21 Jun 2025 (Note 1) |
| 22 Jun 2018 | 70,525 | – | – | – | 70,525 | 403.16 | 22 Jun 2019 to 21 Jun 2025 (Note 2) |
| 6 Jul 2018 | 5,128,760 | – | – | 108,710 | 5,020,050 | 386.60 | 6 Jul 2019 to 5 Jul 2025 (Note 4) |
| 6 Jul 2018 | 8,050 | – | – | – | 8,050 | 386.60 | 6 Jul 2020 to 5 Jul 2025 (Note 5) |
| 6 Jul 2018 | 34,230 | – | – | – | 34,230 | 386.60 | 6 Jul 2021 to 5 Jul 2025 (Note 6) |
| 24 Aug 2018 | 17,780 | – | – | – | 17,780 | 354.00 | 24 Aug 2019 to 23 Aug 2025 (Note 2) |
| 24 Aug 2018 | 2,660 | – | – | – | 2,660 | 354.00 | 6 Jul 2019 to 5 Jul 2025 (Note 8) |
| 4 Apr 2019 | – | 406,875 | – | – | 406,875 | 376.00 | 4 Apr 2020 to 3 Apr 2026 (Note 1 and Note 10) |
| 4 Apr 2019 | – | 2,283,120 | – | – | 2,283,120 | 376.00 | 4 Apr 2020 to 3 Apr 2026 (Note 4 and Note 10) |
| 4 Apr 2019 | – | 17,500,000 | – | – | 17,500,000 | 376.00 | 4 Apr 2024 to 3 Apr 2026 (Note 7 and Note 10) |
| 8 Jul 2019 | – | 665 | – | – | 665 | 359.04 | 8 Jul 2020 to 7 Jul 2026 (Note 1 and Note 11) |
| 8 Jul 2019 | – | 2,176,230 | – | 23,450 | 2,152,780 | 359.04 | 8 Jul 2020 to 7 Jul 2026 (Note 4 and Note 11) |
| 8 Jul 2019 | – | 12,005 | – | – | 12,005 | 359.04 | 8 Jul 2021 to 7 Jul 2026 (Note 5 and Note 11) |
| 23 Aug 2019 | – | 29,610 | – | – | 29,610 | 334.20 | 15 Aug 2020 to 22 Aug 2026 (Note 2 and Note 12) |
| 23 Aug 2019 | – | 67,795 | – | – | 67,795 | 334.20 | 15 Aug 2020 to 22 Aug 2026 (Note 4 and Note 12) |
| 23 Aug 2019 | – | 213,990 | – | – | 213,990 | 334.20 | 15 Aug 2020 to 22 Aug 2026 (Note 9 and Note 12) |
| 2 Dec 2019 | – | 52,745 | – | – | 52,745 | 335.84 | 15 Nov 2020 to 1 Dec 2026 (Note 2 and Note 13) |
| Total: | <u>70,560,444</u> | <u>22,743,035</u> | <u>1,612,741</u> | <u>316,125</u> | <u>91,374,613</u> | | |



Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options can be exercised 1 year after the grant date, and the remaining 50% of the total options will become exercisable in the subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 1 year after the grant date, and each 33.33% of the total options will become exercisable in each subsequent year.
3. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% 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 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
5. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 2 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
6. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 3 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
7. For options granted with exercisable date determined based on the grant date of options, 100% of the total options can be exercised 5 years after the grant date.
8. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
9. Subject to the satisfaction of certain conditions, for options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
10. The closing price immediately before the date on which the options were granted on 4 April 2019 was HKD378.
11. The closing price immediately before the date on which the options were granted on 8 July 2019 was HKD359.8.
12. The closing price immediately before the date on which the options were granted on 23 August 2019 was HKD331.
13. The closing price immediately before the date on which the options were granted on 2 December 2019 was HKD331.8.
14. The weighted average closing price immediately before the date on which the options were exercised was HKD338.99.



Directors' Report

Details of movements of share options granted to employees and certain external consultants under the share option schemes adopted by TME, a subsidiary of the Group, during the year ended 31 December 2019 are as follows:

| Date of grant | Number of share options | | | | | Exercise price USD | Exercise period |
|---------------|----------------------------|---|---|---------------------------------|------------------------------|-----------------------|--|
| | As at 1 January 2019 | Granted during the year (Note 7) | Exercised during the year (Note 6) | Lapsed/ | As at 31 December 2019 | | |
| | | | | forfeited during the year | | | |
| | | | | | | | |
| Employees | | | | | | | |
| 1 Mar 2015 | 12,945,345 | – | 11,323,916 | 213,609 | 1,407,820 | 0.000076 | 1 Mar 2016 to 28 Feb 2025 (Note 1) |
| 1 Mar 2015 | 10,776,631 | – | 9,333,446 | 34,023 | 1,409,162 | 0.27 | 1 Mar 2016 to 28 Feb 2025 (Note 1) |
| 30 Mar 2015 | 3,748,650 | – | 1,787,216 | 7,962 | 1,953,472 | 0.27 | 30 Mar 2016 to 29 Mar 2025 (Note 1) |
| 1 Jul 2015 | 75,100 | – | 75,100 | – | – | 0.27 | 1 Jul 2016 to 30 Jun 2025 (Note 1) |
| 1 Oct 2015 | 791,880 | – | 538,614 | 7,440 | 245,826 | 0.27 | 1 Oct 2016 to 30 Sep 2025 (Note 1) |
| 31 Dec 2015 | 3,036,686 | – | 1,406,160 | 101,302 | 1,529,224 | 0.27 | 31 Dec 2016 to 30 Dec 2025 (Note 1) |
| 31 Dec 2015 | 230,750 | – | 140,448 | – | 90,302 | 0.000076 | 31 Dec 2016 to 30 Dec 2025 (Note 1) |
| 1 Mar 2016 | 746,643 | – | 491,266 | – | 255,377 | 0.27 | 1 Mar 2017 to 28 Feb 2026 (Note 1) |
| 31 Mar 2016 | 370,040 | – | 213,542 | – | 156,498 | 0.27 | 31 Mar 2017 to 30 Mar 2026 (Note 1) |
| 1 Jun 2016 | 7,098,340 | – | 7,098,340 | – | – | 0.27 | 1 Jun 2017 to 31 May 2026 (Note 2) |
| 30 Jun 2016 | 653,070 | – | 489,798 | – | 163,272 | 0.000076 | 30 Jun 2017 to 29 Jun 2026 (Note 1) |
| 30 Jun 2016 | 11,200,035 | – | 4,864,280 | 382,875 | 5,952,880 | 0.27 | 30 Jun 2017 to 29 Jun 2026 (Note 1) |
| 16 Jun 2017 | 2,687,126 | – | 1,279,560 | 61,068 | 1,346,498 | 2.32 | 5 Jul 2017 to 15 Jun 2027 (Note 3) |
| 16 Jun 2017 | 10,411,804 | – | 3,364,614 | 503,720 | 6,543,470 | 2.32 | 31 Mar 2018 to 15 Jun 2027 (Note 3) |
| 31 Aug 2017 | 7,768,593 | – | 2,845,078 | 410,007 | 4,513,508 | 0.27 | 31 Aug 2018 to 30 Aug 2027 (Note 1) |
| 20 Dec 2017 | 7,902,280 | – | 1,881,950 | 468,578 | 5,551,752 | 2.32 | 20 Dec 2018 to 19 Dec 2027 (Note 3) |
| 16 Apr 2018 | 1,300,000 | – | 325,000 | – | 975,000 | 4.04 | 16 Apr 2019 to 15 Apr 2028 (Note 3) |
| 17 Oct 2018 | 2,319,000 | – | – | – | 2,319,000 | 7.14 | 12 Jul 2019 to 16 Oct 2028 (Note 3) |
| 17 Oct 2018 | 3,697,500 | – | – | 300,000 | 3,397,500 | 7.14 | 12 Jul 2020 to 16 Oct 2028 (Note 4) |
| 14 Jun 2019 | – | 1,993,780 | – | – | 1,993,780 | 7.05 | 14 Jun 2020 to 13 Jun 2029 (Note 3 and Note 5) |
| Sub-total: | 87,759,473 | 1,993,780 | 47,458,328 | 2,490,584 | 39,804,341 | | |



| Date of grant | Number of share options | | | | As at 31 December 2019 | Exercise price USD | Exercise period |
|-----------------------------|----------------------------|---|---|--|------------------------------|--------------------------|------------------------------------|
| | As at 1 January 2019 | Granted during the year (Note 7) | Exercised during the year (Note 6) | Lapsed/ forfeited during the year | | | |
| External consultants | | | | | | | |
| 1 Mar 2015 | 2,348,099 | – | 2,009,098 | – | 339,001 | 0.000076 | 1 Mar 2016 to 28 Feb 2025 (Note 1) |
| 1 Mar 2015 | 2,714,940 | – | 2,320,470 | – | 394,470 | 0.27 | 1 Mar 2016 to 28 Feb 2025 (Note 1) |
| Sub-total: | 5,063,039 | – | 4,329,568 | – | 733,471 | | |
| Total: | 92,822,512 | 1,993,780 | 51,787,896 | 2,490,584 | 40,537,812 | | |

Note:

1. The first 25% of the total options can be exercised 1 year after the commencement dates as specified in the relevant grant letters, and each 12.5% of the total options will become exercisable in each subsequent six months.
2. All the options can be exercised 1 year after the commencement date as specified in the relevant grant letter if a certain condition is satisfied.
3. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
4. The first 25% of the total options can be exercised 2 years after the commencement dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.
5. The closing price immediately before the date on which the options were granted on 14 June 2019 was USD7.13.
6. The weighted average closing price immediately before the date on which the options were exercised was USD7.29.
7. The fair value of the options as at the respective grant date was determined using the “Enhanced FAS 123” binomial model which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2019 was USD6.00 per share. Other than the exercise price mentioned above, significant assumptions (which are subject to subjectivity and uncertainty) used to estimate the fair value of the options include risk free rate (2.08%), dividend yield (nil) and expected volatility* (40%).

* The expected volatility was estimated based on the historical volatility of the share prices of similar United States and Hong Kong public companies for a period equal to the expected life preceding the grant date.



Directors' Report

Details of movements of share options granted to employees under the share option schemes adopted by Supercell, a subsidiary of the Group, during the year ended 31 December 2019 are as follows:

| Date of grant | As the date of completion of the business combination (Note 1) | Number of share options | | | As at 31 December 2019 | Exercise price EUR | Exercise period |
|---------------|---|-------------------------|-----------|----------------------|------------------------|-----------------------|---------------------------|
| | | Granted | Exercised | Lapsed/ forfeited | | | |
| | | during | during | during | | | |
| | | the year | the year | the year | | | |
| Employees | | | | | | | |
| 31 May 2012 | 10,505 | – | – | – | 10,505 | 0.14 | Till 31 Mar 2021 (Note 2) |
| 31 May 2012 | 4,998 | – | – | – | 4,998 | 3.59 | Till 31 Mar 2021 (Note 2) |
| 31 May 2012 | 393 | – | – | – | 393 | 29.39 | Till 31 Mar 2021 (Note 2) |
| 11 Apr 2013 | 3 | – | – | – | 3 | 1.64 | Till 31 Mar 2021 (Note 2) |
| 7 Oct 2013 | 2,644 | – | – | – | 2,644 | 3.59 | Till 31 Mar 2021 (Note 2) |
| Total: | 18,543 | – | – | – | 18,543 | | |

Note:

1. Supercell became our subsidiary in October 2019.
2. All outstanding options were granted, vested and exercisable before Supercell became our subsidiary.



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 | Post-IPO Option Scheme IV |
|----------------------------|---|--|---|--|--|
| 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 | 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, 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 |



Directors' Report

| Details | Pre-IPO Option Scheme | Post-IPO Option Scheme I | Post-IPO Option Scheme II | Post-IPO Option Scheme III | Post-IPO Option Scheme IV |
|-----------------------------|---|--|--|---|--|
| 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 444,518,270 shares (after the effect of the Share Subdivision), 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, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, must not in aggregate exceed 30% of the issued shares 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 180,093,330 shares (after the effect of the Share Subdivision), 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, the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, must not in aggregate exceed 30% of the issued shares 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 IV shall be 379,099,339 shares, 4% of the relevant class of securities of the Company in issue as at 17 May 2017. 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 IV and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note). |



| | | Pre-IPO | Post-IPO | Post-IPO | Post-IPO | Post-IPO |
|----|---|--|--|---|--|---|
| | Details | Option Scheme | Option Scheme I | Option Scheme II | Option Scheme III | Option Scheme IV |
| 4. | Maximum entitlement of each participant | The number of ordinary shares in respect of which options may be granted shall not exceed 10% of the number of ordinary shares issued and issuable under the scheme. | 1% of the issued shares of the Company from time to time within any 12-month period up to the date of the latest grant | 1% of the issued shares of the Company from time to time within any 12-month period up to the date of the latest grant | 1% of the issued shares of the Company from time to time within any 12-month period up to the date of the latest grant | 1% of the issued shares 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 its discretion determine the specific vesting and exercise periods. | The option period is determined by the Board provided that the period during which the options 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 the options. 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 the options. 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 7-year period after the date of grant of the options. There is no minimum period for which an option must be held before it can be exercised. |
| 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. | Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant. |



Directors' Report

| Details | Pre-IPO Option Scheme | Post-IPO Option Scheme I | Post-IPO Option Scheme II | Post-IPO Option Scheme III | Post-IPO Option Scheme IV |
|---------------------------------|---|--|--|--|--|
| 7. Exercise 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. | 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. |
| 8. Remaining life of the scheme | It expired on 31 December 2011. | It expired on 23 March 2014. | It expired on 16 May 2017. | It expired on 13 May 2019. | It shall be valid and effective for a period of ten years commencing on 17 May 2017. |

Note:

The total number of shares available for issue under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV are 200,551,970, 175,093,330 and 315,906,839 respectively, which represent approximately 2.10%, 1.83% and 3.31% respectively of the issued shares of the Company as at the date of this annual report.

MOVEMENTS IN THE SHARE OPTIONS

Details of the movements in the share options during the year are set out in Note 34 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 34 to the consolidated financial statements.



SHARE AWARD SCHEMES

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

| | 2007 Share Award Scheme | 2013 Share Award Scheme | 2019 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. | It shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date III; 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 shares of the Company as at the Adoption Date I (i.e. 178,776,160 shares (after the effect of the Share Subdivision)) | 3% of the issued shares of the Company as at the Adoption Date II (i.e. 278,937,260 shares (after the effect of the Share Subdivision)) | 2% of the issued shares of the Company as at the Adoption Date III (i.e. 191,047,317 shares) |
| 4. Maximum entitlement of each participant | 1% of the issued shares of the Company as at the Adoption Date I (i.e. 89,388,080 shares (after the effect of the Share Subdivision)) | 1% of the issued shares of the Company as at the Adoption Date II (i.e. 92,979,085 shares (after the effect of the Share Subdivision)) | 1% of the issued shares of the Company as at the Adoption Date III (i.e. 95,523,658 shares) |



| | 2007 Share Award Scheme | 2013 Share Award Scheme | 2019 Share Award Scheme |
|-----------------|---|---|---|
| 5. Operation | <p>The Board shall select the Eligible Person(s) and determine the number of shares to be awarded.</p> <p>The Board shall, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources into an account 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.</p> | <p>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.</p> <p>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 an account for the purchase and/or subscription of the Awarded Shares as soon as practicable after the Grant Date.</p> | <p>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.</p> <p>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 an account for the purchase and/or subscription of the Awarded Shares as soon as practicable after the Grant Date.</p> |
| 6. Restrictions | <p>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.</p> | <p>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</p> | <p>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</p> |



| | 2007 Share Award Scheme | 2013 Share Award Scheme | 2019 Share Award Scheme |
|-----------------------------|-------------------------|---|---|
| 6. Restrictions (continued) | | <p>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, the SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authorities has not been granted.</p> | <p>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, the SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authorities has not been granted.</p> |



Directors' Report

| | 2007 Share Award Scheme | 2013 Share Award Scheme | 2019 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 the 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. | 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 the 2019 Share Award Scheme. Subject to the satisfaction of all vesting conditions as prescribed in the 2019 Share Award Scheme, the Selected Participants will be entitled to receive the Awarded Shares. |
| 8. Voting Rights | The Trustee shall not exercise any voting rights in respect of any shares held pursuant to the Trust Deed I (including but not limited to the Awarded Shares and any bonus shares and scrip shares derived therefrom). | The Trustee shall not exercise any voting rights in respect of any shares held pursuant to the Trust Deed II or as nominee. | The Trustee shall not exercise any voting rights in respect of any shares held pursuant to the Trust Deed III 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 51,200,222 and 1,896,560 Awarded Shares were granted under the 2013 Share Award Scheme and the 2019 Share Award Scheme respectively and out of which, 59,484 Awarded Shares were granted to the independent non-executive directors of the Company under the 2013 Share Award Scheme. Details of the movements in the Share Award Schemes during the year are set out in Note 34 to the consolidated financial statements.

During the year, a total of 35,794,895 shares were issued to option holders who exercised their share options granted under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, and pursuant to the Share Award Schemes.



As at 31 December 2019, there were a total of 134,478 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

| Name of director | Date of grant | Number of Awarded Shares | | | As at 31 December 2019 | Vesting period |
|---------------------|---------------|----------------------------|-------------------------------|------------------------------|------------------------------|-----------------------------------|
| | | As at 1 January 2019 | Granted during the year | Vested during the year | | |
| Iain Ferguson Bruce | 24 March 2014 | 10,000 | – | 10,000 | – | 24 March 2015 to 24 March 2019 |
| | 2 April 2015 | 7,500 | – | 7,500 | – | 2 April 2016 to 2 April 2019 |
| | 21 March 2016 | 10,000 | – | 5,000 | 5,000 | 21 March 2017 to 21 March 2020 |
| | 24 March 2017 | 15,000 | – | 5,000 | 10,000 | 24 March 2018 to 24 March 2021 |
| | 9 April 2018 | 10,000 | – | 2,500 | 7,500 | 9 April 2019 to 9 April 2022 |
| | 4 April 2019 | – | 13,000 | – | 13,000 | 4 April 2020 to 4 April 2023 |
| | Total: | <u>52,500</u> | <u>13,000</u> | <u>30,000</u> | <u>35,500</u> | |
| Ian Charles Stone | 24 March 2014 | 10,000 | – | 10,000 | – | 24 March 2015 to 24 March 2019 |
| | 2 April 2015 | 7,500 | – | 7,500 | – | 2 April 2016 to 2 April 2019 |
| | 21 March 2016 | 10,000 | – | 5,000 | 5,000 | 21 March 2017 to 21 March 2020 |
| | 24 March 2017 | 15,000 | – | 5,000 | 10,000 | 24 March 2018 to 24 March 2021 |
| | 9 April 2018 | 13,000 | – | 3,250 | 9,750 | 9 April 2019 to 9 April 2022 |
| | 4 April 2019 | – | 17,000 | – | 17,000 | 4 April 2020 to 4 April 2023 |
| | Total: | <u>55,500</u> | <u>17,000</u> | <u>30,750</u> | <u>41,750</u> | |



Directors' Report

| Name of director | Date of grant | Number of Awarded Shares | | | As at 31 December 2019 | Vesting period |
|------------------|----------------|----------------------------|-------------------------------|------------------------------|------------------------------|-------------------------------------|
| | | As at 1 January 2019 | Granted during the year | Vested during the year | | |
| Li Dong Sheng | 24 March 2014 | 5,000 | – | 5,000 | – | 24 March 2015 to 24 March 2019 |
| | 2 April 2015 | 3,750 | – | 3,750 | – | 2 April 2016 to 2 April 2019 |
| | 21 March 2016 | 5,000 | – | 2,500 | 2,500 | 21 March 2017 to 21 March 2020 |
| | 24 March 2017 | 7,500 | – | 2,500 | 5,000 | 24 March 2018 to 24 March 2021 |
| | 9 April 2018 | 6,500 | – | 1,625 | 4,875 | 9 April 2019 to 9 April 2022 |
| | 4 April 2019 | – | 8,500 | – | 8,500 | 4 April 2020 to 4 April 2023 |
| | Total: | <u>27,750</u> | <u>8,500</u> | <u>15,375</u> | <u>20,875</u> | |
| Yang Siu Shun | 6 July 2016 | 5,738 | – | 2,869 | 2,869 | 6 July 2017 to 6 July 2020 |
| | 24 March 2017 | 7,500 | – | 2,500 | 5,000 | 24 March 2018 to 24 March 2021 |
| | 9 April 2018 | 10,000 | – | 2,500 | 7,500 | 9 April 2019 to 9 April 2022 |
| | 4 April 2019 | – | 15,000 | – | 15,000 | 4 April 2020 to 4 April 2023 |
| | Total: | <u>23,238</u> | <u>15,000</u> | <u>7,869</u> | <u>30,369</u> | |
| Ke Yang | 23 August 2019 | – | 5,984 | – | 5,984 | 23 August 2020 to 23 August 2023 |
| | Total: | <u>–</u> | <u>5,984</u> | <u>–</u> | <u>5,984</u> | |
| | Grand Total: | <u>158,988</u> | <u>59,484</u> | <u>83,994</u> | <u>134,478</u> | |



DIRECTORS AND SENIOR MANAGEMENT

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

Executive Directors

Ma Huateng (*Chairman*)

Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker

Charles St Leger Searle

Independent Non-Executive Directors

Li Dong Sheng

Iain Ferguson Bruce

Ian Charles Stone

Yang Siu Shun

Ke Yang (appointed with effect from 15 August 2019)

In accordance with Article 87 of the Articles of Association, Mr Lau Chi Ping Martin and Mr Charles St Leger Searle will retire at the 2020 AGM and, being eligible, will offer themselves for re-election. In addition, in accordance with Article 86(3) of the Articles of Association, Professor Ke Yang, who was appointed as director with effect from 15 August 2019, will hold office until the 2020 AGM and, being eligible, will offer herself for re-election.

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



Directors' Report

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 48, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 13th 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 26 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr Ma also serves as a director of certain subsidiaries of the Company.

Lau Chi Ping Martin, age 46, 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, mergers and acquisitions and investor relations. In 2006, Mr Lau was promoted to 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 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. Mr Lau is currently a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider, and Meituan Dianping, a leading eCommerce platform for services in China; both of these companies are publicly listed on the Stock Exchange. Mr Lau is also a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, Vipshop Holdings Limited, an online discount retailer company, and TME, an online music entertainment platform in China; all of these companies are listed on the New York Stock Exchange. Mr Lau is also a director of JD.com, Inc., an online direct sales company in China, that is listed on NASDAQ. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company.

Jacobus Petrus (Koos) Bekker, age 67, has been a non-executive director since November 2012. Koos led the founding team of the M-Net/MultiChoice pay-television business in 1985. He was also a founder director of MTN in cellular telephony. Koos headed the MIH group in its international and Internet expansions until 1997, when he became chief executive of Naspers. He serves on the boards of other companies within the group and associates, as well as other bodies. In April 2015, he became non-executive chair. Academic qualifications include BA Hons and honorary doctorate in commerce (Stellenbosch University), LLB (University of the Witwatersrand) and MBA (Columbia University, New York).



Charles St Leger Searle, age 56, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, including Mail.ru Group Limited that is listed on the London Stock Exchange and MakeMyTrip Limited that is listed on NASDAQ. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 26 years of international experience in the telecommunications and Internet industries. Mr Searle also serves as a director of certain subsidiaries of the Company.

Li Dong Sheng, age 62, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Technology Group Corporation (formerly known as TCL Corporation) that is listed on the Shenzhen Stock Exchange, and the Chairman and an executive director of TCL Electronics Holdings Limited that is listed on the Stock Exchange, both of which produce consumer electronic products. Mr Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 25 years of experience in the information technology field. Mr Li was an independent director of Legrand that is listed on the New York Stock Exchange Euronext up to 30 May 2018.

Iain Ferguson Bruce, age 79, 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 55 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, South Shore Holdings Limited (formerly known as The 13 Holdings Limited), a construction, engineering services and hotel development 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. Mr Bruce is also an independent non-executive director 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 a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited, up to 11 May 2017, and was also an independent non-executive director of Citibank (Hong Kong) Limited, up to 2 August 2017. Mr Bruce was also an independent non-executive director of MSIG Insurance (Hong Kong) Limited, up to 1 July 2018.



Directors' Report

Ian Charles Stone, age 69, has been an independent non-executive director since April 2004. Mr Stone is currently an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. His career in the last 30 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. Since 2011, Mr Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong (China), Mainland China, South East Asia and the Middle East. Mr Stone has more than 49 years of experience in the telecom and mobile industries. Mr Stone is a fellow member of The Hong Kong Institute of Directors. Mr Stone also serves as an independent non-executive director of a subsidiary of the Company.

Yang Siu Shun, age 64, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a Steward of the Hong Kong Jockey Club, and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the Stock Exchange and the Shanghai Stock Exchange. Mr Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr Yang also served as a Board Member and the Audit Committee Chairman of the Hang Seng Management College, up to 30 September 2018 and the Deputy Chairman of the Council of The Open University of Hong Kong ("OUHK"), up to 19 June 2019. Mr Yang graduated from the London School of Economics and Political Science in 1978. Mr Yang was awarded the degree of Honorary Doctor of Social Sciences by OUHK. Mr Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Ke Yang, age 64, has been an independent non-executive director since August 2019. Professor Ke is currently the Director of Laboratory of Genetics of Peking University Cancer Hospital and an international member of the United States National Academy of Medicine. Professor Ke is also Vice-president of the Peking University Alumni Association, President of the Peking University Health Science Center Alumni Association, Vice-president of the Chinese Medical Association, President of the Health Professional Education Committee of the Chinese Association of Higher Education, and Vice-chairperson of the Steering Committee of Clinical Medicine of the Committee of Academic Degrees of the State Council. Professor Ke's research focus is on the upper gastrointestinal tumors, including the cloning of gastric cancer related genes and the functional study of such genes. Together with her team, she has also established the population cohort in esophageal cancer high incidence regions in China, studied the etiology of esophageal cancer, and evaluated the effects and economic efficacy of early screening of the disease. She has published more than 100 papers and had registered patents and been granted awards at national and provincial levels for technological and educational achievements. Professor Ke was a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference, an executive Vice-president of Peking University and of the Peking University Health Science Center (formerly known as Beijing Medical College), a member of the Committee of Academic Degrees of the State Council, a member of the Healthcare Reform Advisory Committee of the State Council and the Chairperson of the Working Committee for Graduate Medical and Pharmaceutical Education of the Office of Academic Degrees of the State Council. Professor Ke graduated from the Peking University Health Science Center in 1982. From 1985 to 1988, Professor Ke worked at the National Cancer Institute of the National Institutes of Health of the United States as a postdoctoral fellow.



BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 48, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, and customer 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. Mr Xu currently serves as a director or officer of certain subsidiaries of the Company.

Ren Yuxin, age 44, Chief Operating Officer and President of Platform & Content Group and Interactive Entertainment Group, joined the Company in 2000 and had served as the General Manager for the Value-Added Services Development Division and General Manager for the 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 overall operation of the Platform & Content Group and the Interactive Entertainment Group. Prior to joining the Company, Mr Ren worked at Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science degree in Computer Science and Engineering from University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008. Mr Ren currently serves as a director of a subsidiary of the Company.

James Gordon Mitchell, age 46, Chief Strategy Officer and Senior Executive Vice President, joined the Company in 2011. He is responsible for various functions, including the Company's strategic planning and implementation, investor relations, mergers and acquisitions and investment activities. Prior to joining the Company, Mr Mitchell had worked in investment banking for 16 years. Most recently, Mr Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analysed Internet, entertainment and media companies globally. Mr Mitchell received a degree from Oxford University and holds a Chartered Financial Analyst Certification. Mr Mitchell currently serves as a director of certain subsidiaries of the Company.

Lau Seng Yee, age 53, Senior Executive Vice President and Chairman of Tencent Advertising and of Group Marketing and Global Branding and has been affiliated with Tencent Group as a member of their top management steering committee since 2006. He served for 11 years as the President of Online Media Group before assuming his current dual chairmanship corporate roles in 2017. As Chairman of Advertising and of Group Marketing and Global Branding, he plays a key leadership role in enhancing synergies of Tencent's advertising properties across different business groups and in managing Tencent's international strategic partnerships on behalf of Tencent's leadership team. Mr Lau represents the Company as a champion for the cause of using technology for universal good, particularly for how technology could be better utilised for a sustainable development of human society. Professionally, Mr Lau was recognised as the "Global Media Person of the Year" by the Cannes Lions in 2015. In 2018, he became one of the founding members of the Global CMO Growth Council, a board featuring 25 top marketing leaders who share the vision and passion to transform the professional practices of marketing. Mr Lau is a graduate of University of Kebangsaan in Malaysia and received an EMBA degree from Rutgers University in New Jersey, which in 2017 named him as a Distinguished Alumnus. He completed the Advanced Management Program at the Harvard Business School and serves as a board member of that school's Asia-Pacific Advisory Board.



Directors' Report

Tong Tao Sang, age 46, Senior Executive Vice President, President of Cloud and Smart Industries Group and Chairman of TME, is leading the Industrial Internet strategy and the enterprise businesses for Tencent. Mr Tong manages the security labs, the multi-media lab, and Youtu AI lab, and he is one of the co-chairs of Tencent's technology council. Mr Tong joined the Company as a technical architect in 2005, and had previously led QQ, Qzone, QQshow, and their advertising and value-added services. Prior to joining the Company, Mr Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor and a Master of Science degree in Electrical Engineering from Stanford University. Mr Tong currently serves as a director of certain subsidiaries of the Company.

Zhang Xiaolong, age 50, Senior Executive Vice President and President of Weixin Group, joined the Company in March 2005 and had served as the General Manager for the Guangzhou R&D Division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin/WeChat and QQ Mail. He is also responsible for the management and review of major innovation projects. In May 2014, Mr Zhang was promoted to Senior Executive Vice President, in charge of the Weixin Group. Prior to joining the Company, Mr Zhang developed Foxmail independently in 1997 as the first 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.

Lu Shan, age 45, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as the General Manager for IM Product Division, 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 the Technology and 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. Mr Lu currently serves as a director or officer of certain subsidiaries of the Company.

David A M Wallerstein, age 45, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company's active participation in emerging technologies, business areas, and ideas, with a passion for contributing to a more resilient planet. Prior to joining the Company, Mr Wallerstein worked for Naspers in China. Mr Wallerstein received a bachelor's degree from University of Washington and a Master's degree from UC Berkeley. Mr Wallerstein currently serves as a director of a subsidiary of the Company.



Ma Xiaoyi, age 46, 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 the General Manager of games division of OPTIC Communication Co., Ltd. Prior to that, Mr Ma worked as the General Manager in Shanghai EasyService Technology Development Ltd. Mr Ma graduated from Shanghai Jiaotong University in 1997, and received an EMBA degree from Fudan University in 2008. Mr Ma currently serves as a director of certain subsidiaries of the Company.

John Shek Hon Lo, age 51, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and had served as the Company's Financial Controller from 2004 to 2008. Mr Lo was promoted to the Company's Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked at PricewaterhouseCoopers. He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants, a Fellow of the Chartered Institute of Management Accountants and a Member of the Association of Chartered Certified Accountants. Mr Lo received a Bachelor of Business degree in Accounting from Curtin University and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and The Hong Kong University of Science and Technology. Mr Lo currently serves as a director of a subsidiary of the Company.

Guo Kaitian, age 47, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of legal affairs, administration, infrastructure, procurement, public strategy, safety management and corporate social responsibility. Mr Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996. Mr Guo currently serves as a director of a subsidiary of the Company.

Xi Dan, age 44, 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 24 years of experience in IT and Internet industries. Mr Xi received a Bachelor of Science degree in Applied Computer Science from Shenzhen University in 1996 and an MBA degree from Tsinghua University in 2005. Mr Xi currently serves as a director or officer of certain subsidiaries of the Company.



Directors' Report

DIRECTORS' SERVICE CONTRACTS

Mr Ma Huateng has entered into a service contract with the Company for a term of three years from 1 January 2019 to 31 December 2021. The term of the service contract can be further extended by agreement between the Company and Mr Ma. The Company may terminate the service contract by three months' written notice at any time, subject to paying 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 2021. 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, programmes and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the 2020 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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, no transaction, arrangement or contract 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 or an entity connected with 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.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries was a party to any arrangements to enable directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year or at the end of the year.



DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2019, 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 position in the shares and underlying shares of the Company

| Name of director | Nature of interest | Number of shares/ underlying shares held | Approximate % of shareholding |
|---------------------|------------------------|---|----------------------------------|
| Ma Huateng | Corporate (Note 1) | 819,507,500 | 8.58% |
| Lau Chi Ping Martin | Personal * | 52,690,380 (Note 2) | 0.55% |
| Li Dong Sheng | Personal * | 61,300 (Note 3) | 0.0006% |
| Iain Ferguson Bruce | Personal * | 352,500 (Note 4) | 0.004% |
| Ian Charles Stone | Personal * Family + | 135,000 240,000 | 0.004% |
| | | 375,000 (Note 5) | |
| Yang Siu Shun | Personal * | 46,474 (Note 6) | 0.0005% |
| Ke Yang | Personal * | 5,984 (Note 7) | 0.00006% |



Directors' Report

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng, holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.
2. The interest comprises 31,968,000 shares and 20,722,380 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV. Details of the share options granted to this director are set out above under "Share Option Schemes".
3. The interest comprises 40,425 shares and 20,875 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".
4. The interest comprises 317,000 shares and 35,500 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".
5. The interest comprises 333,250 shares and 41,750 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".
6. The interest comprises 16,105 shares and 30,369 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".
7. The interest comprises 5,984 underlying shares in respect of the Awarded Shares granted pursuant to the 2013 Share Award Scheme. Details of the Awarded Shares granted to this director are set out above under "Share Award Schemes".

* Interests of beneficial owner

+ Interests of spouse or child under 18 as beneficial owner

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

| Name of director | Name of associated corporation | Nature of interest | Number of shares and class of shares held | Approximate % of shareholding |
|------------------|--------------------------------|--------------------|---|-------------------------------|
| Ma Huateng | Tencent Computer | Personal | RMB35,285,705 (registered capital) | 54.29% |
| | Shiji Kaixuan | Personal | RMB5,971,427 (registered capital) | 54.29% |

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2019.



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 reasons for using Structure Contracts

Current PRC laws and regulations limit foreign investment in businesses providing value-added telecommunications services in China. As foreign-invested enterprises, the WFOEs do not have licences to provide Internet content or information services and other telecommunications value-added services. Accordingly, the value-added telecommunications business of the Group has been conducted through Tencent Computer, Shiji Kaixuan and the new operating companies (the "New OPCOs") (collectively, the "OPCOs") by themselves or through their subsidiaries under the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company). As a result of the Structure Contracts, the Group is able to recognise and receive the economic benefit of the business and operations of the OPCOs. The Structure Contracts are also designed to provide the Company with effective control over and (to the extent permitted by PRC law) the right to acquire the equity interests in and/or assets of the OPCOs.

For a summary of the major terms of the Structure Contracts, please refer to the sections headed "Our History and Structure" and "Structure Contracts" in the IPO prospectus. During the year ended 31 December 2019, there was no material change in the Structure Contracts and/or the circumstances under which they were adopted, and none of the Structure Contracts has been unwound as none of the restrictions that led to the adoption of Structure Contracts has been removed.



Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) as at 31 December 2019

Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) include the Notice on Further Strengthening the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) (the “Circular 13”) jointly issued by PRC General Administration of Press and Publication, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications in September 2009 provides that foreign investors are not permitted to invest in online game-operating businesses in the PRC via wholly owned, equity joint venture or co-operative joint venture investments and further expressly prohibits foreign investors from gaining control over or participating in domestic online game operators through indirect ways such as establishing other joint venture companies or entering into contractual or technical arrangements with the Chinese licence holders.

However, the Circular 13 does not provide any interpretation of the term “foreign investors” or make a distinction between foreign online game companies and companies under a corporate structure similar to the Group. Thus, it is unclear whether the State General Administration of Press, Publication, Radio, Film and Television will deem the Group's structure and operations to be in violation of these provisions.

In the view of the Company's PRC legal advisers, the arrangement of the Structure Contracts does not violate applicable existing PRC laws and regulations as the Company indirectly operates the value-added telecommunication service business, online and mobile games, online advertising and other Internet and wireless portals in the PRC through OPCOs that hold the necessary licences for the existing lines of businesses.

However, the Company's PRC legal advisers also advised that there are substantial uncertainties regarding the interpretation and application of the currently applicable PRC laws, rules and regulations. Accordingly, the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the position of the Company's PRC legal advisers concerning the Structure Contracts.

It is uncertain whether any new PRC laws, rules or regulations relating to Structure Contracts will be adopted or if adopted, what they would provide. On 15 March 2019, the Standing Committee of National People's Congress promulgated Law of Foreign Investment which became effective on 1 January 2020 (the “2019 Law of Foreign Investment”). While the 2019 Law of Foreign Investment does not define Structure Contracts as a form of foreign investment explicitly, the Company cannot assure that future laws and regulations will not provide for Structure Contracts as a form of foreign investment. Therefore, there can be no assurance that the Company's control over OPCOs through Structure Contracts will not be deemed as foreign investment in the future. If the Structure Contracts were to be deemed as a method of foreign investment under any future laws, regulations and rules, and if any of the Company's business operations were to fall under the “negative list” for foreign investment, the Company would need to take further actions in order to comply with these laws, regulations and rules, which may materially and adversely affect its current corporate structure, business, financial condition and results of operations.



Particulars of the OPCOs

Set out below is the registered owners and business activities of the OPCOs which had entered into transactions with the Group during the year ended 31 December 2019:

| Name of the operating companies | Registered owners as at 31 December 2019 | Business activities |
|---------------------------------|--|---|
| Tencent Computer | 54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan | Provision of value-added services and Internet advertisement services in the PRC |
| Shiji Kaixuan | 54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan | Provision of Internet advertisement services in the PRC |
| Wang Dian | Shiji Kaixuan | Provision of value-added services in the PRC |
| Beijing BIZCOM | Tencent Computer | Provision of value-added services in the PRC |
| Beijing Starsinhand | Shiji Kaixuan | Provision of value-added services in the PRC |

The above OPCOs are significant to the Group as they hold relevant licences to provide Internet information services and other value-added telecommunications services. The aggregate gross revenue and net asset value of the above OPCOs that are subject to the Structure Contracts amounted to approximately RMB220 billion for the year ended 31 December 2019 and approximately RMB39 billion as at 31 December 2019 respectively.

Review of the transactions carried out under the Structure Contracts during the financial year

The Company's independent non-executive directors had reviewed the Structure Contracts 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 2019 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network and Guian New Area Tencent Cyber. The



Directors' Report

Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by the OPCOs to the holders of their equity interests and the terms of any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period 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 the OPCOs as at 31 December 2019 to the WFOEs and that no dividends or other distributions had been made by the OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2019, 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 RMB77,849 million, RMB3,031 million, RMB17,586 million, RMB18,063 million, RMB8,751 million, RMB2,379 million, RMB2,979 million, RMB379 million, RMB5,410 million, RMB1,352 million, RMB186 million, RMB4 million and RMB189 million were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan, Chongqing Tencent Information, Shanghai Tencent Information, Shenzhen Tencent Information, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network and Guian New Area Tencent Cyber respectively.
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 were 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 licence 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 licence 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 to 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 to 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.



Directors' Report

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 Co-operation 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 RMB1 million, RMB2 million and RMB54 million was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB2 million, RMB13 million and RMB0.009 million was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB1 million and RMB0.466 million was paid or payable by Beijing Starsinhand to Cyber Tianjin and Tencent Beijing respectively.



The risks associated with Structure Contracts and the actions taken by the Company to mitigate the risks

Due to regulatory limitations restricting foreign investment in businesses providing value-added telecommunications services in China, the Company conducts some of its business in the PRC through the OPCOs. These contractual arrangements may not be as effective in providing control as direct ownership. Pursuant to the Structure Contracts, the arbitration tribunal is entitled to decide compensation for the equity interests or property ownership of OPCOs, decide to implement enforceable remedy (including mandatorily requiring OPCOs to transfer the equity interests of OPCOs to the WFOEs, etc.) or order the bankruptcy of OPCOs. Prior to the formation of the arbitration tribunal, the courts of the places where the major assets of OPCOs are situated are entitled to implement interim remedies to ensure the enforcement of the future decisions of the arbitration tribunals.

The WFOEs have been structured and located in order to benefit from preferential tax treatments offered to companies located in designated economic zones and/or operating software-related businesses. Although the relevant governmental authority has granted such preferential tax treatment to certain WFOEs and OPCOs, there can be no assurance that the conditions under which these treatments are provided will always be present. The relevant WFOEs and OPCOs would use their reasonable endeavours to take all necessary actions, including but not limited to maintaining or acquiring their status as “High and New Technology Enterprise” or “National Key Software Enterprise”, in order to continue to enjoy the reduced income tax rate and the other tax concessions.

Due to the legal constraints in relation to foreign investment in the telecommunications value-added services industry in the PRC, a number of agreements have been entered into between members of the Group whereby the Company and the WFOEs derive substantially all their revenues from transactions with the OPCOs. The recognition of revenues outlined in these intra-group contracts could be challenged by tax authorities and any adjustment in tax treatment could have a material and adverse impact on the taxable profitability of the Group. As advised by the Company's PRC legal advisers, it is unlikely that the tax treatment of revenues will be challenged by the PRC tax authorities, provided that the transactions under these intra-group contracts represent bona fide transactions conducted on an arm's length basis. The Company will take all necessary actions to ensure and monitor that relevant transactions are to be conducted on an arm's length basis to minimise the risks of adjustment in tax treatment.

For details of the risks associated with the Structure Contracts, please refer to the section headed “Risk factors – Risks relating to our structure” in the IPO prospectus.

Other connected transactions

Save as the related parties transaction disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 21 (Transactions with associates), Note 26 (Loan to investees and investees' shareholders) and Note 34 (Share-based payments) 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.



Directors' Report

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the shares of the Company:

Long/ short position in the shares of the Company

| Name of shareholder | Long/ short position | Nature of interest/ capacity | Number of shares/ underlying shares held | Approximate % of shareholding |
|-------------------------------|----------------------|------------------------------|--|-------------------------------|
| MIH TC | Long position | Corporate (Note 1) | 2,961,223,600 | 31.00% |
| Advance Data Services Limited | Long position | Corporate (Note 2) | 819,507,500 | 8.58% |

Note:

1. MIH TC is controlled by Naspers Limited indirectly through its non wholly-owned intermediary companies, Prosus N.V. (formerly known as Myriad International Holdings N.V.) and MIH Services FZ LLC. As such, Naspers Limited, Prosus N.V. and MIH Services FZ LLC are deemed to be interested in the same block of 2,961,223,600 shares under Part XV of the SFO.
2. Advance Data Services Limited holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of "Directors' Interests in Securities".

Save as disclosed above, the Company had not been notified of any other persons (other than the directors or chief executive of the Company) who, as at 31 December 2019, had interests or short positions in the shares and underlying shares of 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 were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the five largest customers of the Group accounted for approximately 7.78% of the Group's total revenues while the largest customer of the Group accounted for approximately 2.85% of the Group's total revenues. In addition, for the year ended 31 December 2019, the five largest suppliers of the Group accounted for approximately 19.58% of the Group's total purchases while the largest supplier of the Group accounted for approximately 5.16% of the Group's total purchases.

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

AUDIT COMMITTEE

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2019. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

ENVIRONMENT AND COMPLIANCE WITH LAWS

The Group is committed to minimising the impact on the environment from our business activities and the details of such efforts are set out in the section headed "Environment" in the "Environmental, Social and Governance Report" in this annual report. As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.



Directors' Report

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 the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 62,885 employees (2018: 54,309). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2019 was RMB53,123 million (2018: RMB42,153 million).

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, 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 2020 AGM

The register of members of the Company will be closed from Friday, 8 May 2020 to Wednesday, 13 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2020 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 Thursday, 7 May 2020.

(B) Entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Wednesday, 20 May 2020, 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, 18 May 2020.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2020 AGM.

On behalf of the Board

Ma Huateng

Chairman

Hong Kong, 18 March 2020



Corporate Governance Report

Maintaining the highest standards of corporate governance and ethical business practices are core values of the Group. The Board views effective corporate governance practices as a priority of the Group, with the aim of providing our investors with a thorough understanding of the Group's management and how such management oversees and manages different businesses of the Group. Our belief is that investors will realise 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 lead to public trust and will ultimately create shareholder value for the Group.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the code provisions as set out in the CG Code. The Board believes that throughout the year ended 31 December 2019, the Company complied with the applicable code provisions set out in the CG Code, except for the deviation from code provisions A.2.1 regarding the segregation of the roles 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 when appropriate.

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 such strategy.

The Board has defined the business and governance issues for which it needs to be responsible for, and these matters are reviewed periodically to ensure that the Company maintains effective and up-to-date corporate governance practices. 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 business plan and budget;
- appoints the Chief Executive Officer, who reports to the Board, and ensures that succession is planned;



- approves the Company's financial statements and 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, internal audit and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders;
- establishes Board committees with clear terms of reference and responsibilities as appropriate;
- defines levels of delegation in respect of specific matters, with required authority to Board committees and management;
- monitors non-financial aspects pertaining to the businesses of the Group;
- considers and, if appropriate, declares the payment of dividends to shareholders; and
- 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 delegates certain matters requiring particular time, attention and expertise to its committees. The Board has determined that these matters are better dealt with by the committees as they require independent oversight and specialist 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 its terms of reference which clearly specify its powers and authorities. All committees report back to the Board and make recommendations to the Board if necessary.



Corporate Governance Report

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;
- reviews the work done by the Company's management with respect to risk management and internal control systems;
- oversees the risks undertaken by the Company including determining the level of risk the Company expects to and is able to take; and
- oversees the Group's anti-money laundering and sanctions compliance system.

Corporate Governance Committee

- reviews the Company's corporate governance and makes recommendations to the Board;
- reviews and monitors the training and continuous professional development of the directors and senior management team;
- reviews and monitors the Company's policies and practices on its 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; and
- reviews the Company's Environmental, Social and Governance strategy and makes recommendations to the Board.



Investment Committee

- identifies, considers and makes recommendations on mergers, acquisitions and disposals; and
- ensures compliance with the Listing Rules and any other relevant laws and regulations on 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 suitable and qualified individuals and makes recommendations to the Board as to new Board members, by taking into account the individual's experience, knowledge, skills, gender and background, as well as the Listing Rules requirements;
- reviews and makes recommendations to the Board on individuals nominated to be directors by shareholders;
- assesses the independence of independent non-executive directors and the perspectives, skills and experience that such director can bring to the Board; and
- reviews and monitors the implementation of the board diversity policy and the board nomination policy of the Company.

Remuneration Committee

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

The major work of the committees during the year 2019 is set out on pages 79 to 84.

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



Corporate Governance Report

We believe education and training are important for maintaining an effective Board. New directors undergo an orientation programme designed to provide a thorough understanding of the Group's operations and businesses, and also receive a handbook outlining their responsibilities under the Listing Rules and applicable laws. Existing directors are provided with tailored training programmes covering topics such as best practices in corporate governance, legal and regulatory trends and, given the nature of our business, emerging technologies and products. Directors also regularly meet with the senior management team to understand the Group's businesses, governance policies and regulatory environment. During the year ended 31 December 2019, the Company arranged training on topics relating to corporate governance, legal and regulatory updates and product trends which are relevant to the Group's businesses. The table below summarises the participation of each of the directors in continuous professional development during the year ended 31 December 2019:

| Name of director | Participated in continuous professional development ¹ |
|--|--|
| Executive directors | |
| Ma Huateng | √ |
| Lau Chi Ping Martin | √ |
| Non-executive directors | |
| Jacobus Petrus (Koos) Bekker | √ |
| Charles St Leger Searle | √ |
| Independent non-executive directors | |
| Li Dong Sheng | √ |
| Iain Ferguson Bruce | √ |
| Ian Charles Stone | √ |
| Yang Siu Shun | √ |
| Ke Yang ² | √ |

¹ Attended training/ seminar/ conference arranged by the Company or other external parties or read relevant materials.

² Professor Ke Yang was appointed as an independent non-executive director of the Company with effect from 15 August 2019.

A high level of corporate governance and integrity cannot be maintained only with the Board's efforts. Each of the Group's employees plays a role in contributing to such cause. A code of conduct which emphasises integrity and respect is distributed by the Company to all employees and it forms part of the employment agreement with each of the employees.



In addition, the Board has adopted various practices to bring the Group to a high level of corporate governance and 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 has been and will be conducted on a regular basis;
- training has 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 relevant laws;
- the company secretary attends training in compliance with the Listing Rules requirements; and
- informal updates from time to time and structured monthly updates on the Company's performance, position and prospects are provided to the directors.

Chairman and Chief Executive Officer

Mr Ma Huateng serves as the Chairman and Chief Executive Officer 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 Chief Executive Officer must be technically sophisticated and 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 roles of the Chairman and Chief Executive Officer 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 the 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 all issues raised are properly briefed at the Board meetings, and he works with the senior management team to provide adequate, accurate, clear, complete and reliable information to members of the Board in a timely manner. Further, the Chairman ensures that adequate time is available for discussion for all items at the Board meetings. During the year ended 31 December 2019, the Chairman held a meeting with the independent non-executive directors without the presence of other directors as required by the Listing Rules.

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



Corporate Governance Report

Composition

As at the date of this annual report, the Board is comprised of nine directors, with two executive directors, two non-executive directors and five independent non-executive directors. During the year ended 31 December 2019 and up to the date of this annual report, there is no change to the composition of the Board except that Professor Ke Yang has been appointed as an independent non-executive director with effect from 15 August 2019.

A list of directors and their respective biographies are set out on pages 49 to 52 of this annual report.

In order to take advantage of the skills, experiences and diversity of perspectives of the directors and in order to ensure that the directors give sufficient time and attention to the Group's affairs, we request each of the directors to disclose to the Company, on a quarterly basis, 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 the 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 professional 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 in a professional, constructive and informed manner, and actively participate in Board and committee meetings and bring professional judgment and advice on issues relating to the Group's strategies, policies, performance, accountability, resources, key appointments, standards of conduct, conflicts of interests and management process, with the shareholders' interests being the utmost important factor. The non-executive directors also take the lead where potential conflicts of interests arise and exercise their professional judgment and utilise their expertise to scrutinise the Company's performance in achieving agreed corporate goals, and monitor performance reporting.

Further, in compliance with Rule 3.10 of the Listing Rules, two of our independent non-executive directors have the appropriate professional qualifications of accounting or related financial management expertise, and provide valuable advice from time to time to the Board. The Company has also received from each independent non-executive director a confirmation annually of their independence and the Nomination Committee 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.

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 appropriate composition of the Board, we can benefit from the right set of skills, experience and diversity of perspectives to take the Company forward. Therefore, it is essential for the Company to maintain a 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 2019 annual general meeting, Messrs Jacobus Petrus (Koos) Bekker and Ian Charles Stone retired and were re-elected.

Code provision A.4.2 of the 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.

The Chairman, in accordance with the Articles of Association, whilst holding such office is not subject to retirement by rotation nor taken into account in determining the number of directors to retire in each year. Therefore, there is a deviation from code provision A.4.2 of the CG Code. The Chairman is one of the founders of the Group and he plays a key role in the growth and development of the Group and his continuing presence in the Board is vital to the sustainable development of the Group. Given the importance of the Chairman's role in the development of the Group, the Board considers that the deviation from code provision A.4.2 of the CG Code has no material impact on the operation of the Group as a whole.



Corporate Governance Report

Board Activity

The Board met five times in 2019. The attendance of each director at Board meetings, committee meetings, annual general meeting and extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

| | | | Corporate | | | Annual | Extraordinary |
|--|-------|-----------|------------|------------|--------------|---------|---------------|
| | | Audit | Governance | Nomination | Remuneration | General | General |
| Name of director | Board | Committee | Committee | Committee | Committee | Meeting | Meeting |
| <i>Executive directors</i> | | | | | | | |
| Ma Huateng | 5/5 | | | 1/1 | | 1/1 | 1/1 |
| Lau Chi Ping Martin | 5/5 | | | | | 1/1 | 1/1 |
| <i>Non-executive directors</i> | | | | | | | |
| Jacobus Petrus (Koos) Bekker | 5/5 | | | | 3/3 | 1/1 | 1/1 |
| Charles St Leger Searle | 5/5 | 8/8 | 2/2 | 1/1 | | 1/1 | 1/1 |
| <i>Independent non-executive directors</i> | | | | | | | |
| Li Dong Sheng | 3/5 | | | 0/1 | 3/3 | 0/1 | 0/1 |
| Iain Ferguson Bruce | 3/5 | 8/8 | 2/2 | 1/1 | | 0/1 | 0/1 |
| Ian Charles Stone | 5/5 | 8/8 | 2/2 | 1/1 | 3/3 | 1/1 | 1/1 |
| Yang Siu Shun | 5/5 | 8/8 | 2/2 | | | 1/1 | 1/1 |
| Ke Yang* | 2/2 | | 1/1 | | | | |

* Professor Ke Yang was appointed as an independent non-executive director of the Company with effect from 15 August 2019.

At the Board meetings, the Board discussed 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 appointment of directors, 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 agenda 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 notice of the Board meeting to each of the directors at least 14 days in advance of each regular Board meeting. The company secretary also sends the agenda, board papers and relevant information relating to the Group to each of the directors at least 3 days in advance of each regular Board meeting and committee meeting, and keeps 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 potential or actual conflict of interests involving a substantial shareholder or a director, such director will 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 seek independent professional advice at the Company's expense in appropriate circumstances.



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 and ensuring that sufficient details of the matters considered and decisions reached have been recorded. Draft and final version of the minutes of meetings are sent to the directors for comments and records respectively within a reasonable time after each meeting, and final minutes with the relevant board papers and related materials are kept by the company secretary and are available for review and inspection by the directors at any time.

THE COMMITTEES

As described above, the Board has established five committees, each of which has been delegated responsibilities and reports back to the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code. The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration 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 Yang Siu Shun, Mr Iain Ferguson Bruce, Mr Ian Charles Stone (all of them are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). Mr Yang Siu Shun, who chairs the Audit Committee, and Mr Iain Ferguson Bruce and Mr Charles St Leger Searle have appropriate professional qualifications and experiences in financial matters.

The Audit Committee meets not less than four times a year; the Audit Committee met eight times in 2019. Individual attendance of each Audit Committee member is set out on page 78. In addition to the members of the Audit Committee, meetings were attended by the Chief Financial Officer, the Head of IA and the Head of IC, and the external auditor at the invitation of the Audit Committee.

The Audit Committee's major work during the year 2019 includes the following:

- reviewing the 2018 annual report, including the Corporate Governance Report, the Environmental, Social and Governance Report, Directors' Report and the financial statements, as well as the related results announcement;
- reviewing the 2019 interim report and interim results announcement;
- reviewing the 2019 first and third quarters results announcements;
- reviewing the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group;
- proposing the dividend policy of the Company for the consideration and adoption by the Board;



Corporate Governance Report

- in relation to the external auditor, reviewing their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;
- reviewing the plans (including those for 2019), resources and work of the Company's internal auditors;
- reviewing the adequacy of resources, qualifications and training of the Group's finance department;
- reviewing 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; and
- updating the terms of reference to reflect the additional role of the Audit Committee to monitor the adequacy and effectiveness of the Group's compliance systems and controls on anti-money laundering and sanctions in relation to the management of financial crime risks.

PricewaterhouseCoopers ("PwC") is the Company's external auditor. The Audit Committee annually reviews the relationship of the Company 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 with this relationship. As such, the Audit Committee has recommended their re-appointment at the 2020 AGM.

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle (non-executive director), Mr Iain Ferguson Bruce, Mr Ian Charles Stone, Mr Yang Siu Shun and Professor Ke Yang (appointed as a member of the Corporate Governance Committee with effect from 15 August 2019) (all of them are independent non-executive directors). The Corporate Governance Committee is chaired by Mr Charles St Leger Searle.

The Corporate Governance Committee met twice in 2019. Individual attendance of each Corporate Governance Committee member is set out on page 78.

The Corporate Governance Committee's major work during the year 2019 includes the following:

- reviewing the Company's policies and practices on corporate governance;
- reviewing legal and regulatory compliance, including the insider dealing policy, the disclosure of inside information policy and the shareholders communication policy;
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewing the Company's compliance with the ESG Reporting Guide and disclosure in the Environmental, Social and Governance Report; and



- discussing the arrangements made for directors and senior management team to attend training sessions for continuous professional development.

Investment Committee

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

In 2019, the Investment Committee had considered and passed various 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 (all three are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). The Nomination Committee is chaired by Mr Ma Huateng.

The Nomination Committee met once in 2019. Individual attendance of each Nomination Committee member is set out on page 78.

During 2019, the Nomination Committee considered and endorsed the new board nomination policy for the Board's approval and updated its terms of reference to include its duties regarding the board nomination policy. Nomination Committee reviewed board composition and director succession, the board diversity policy and the board nomination policy, and also considered and made recommendations to the Board on the proposed appointment of Professor Ke Yang as an independent non-executive director and the re-appointment of the retiring directors at the 2019 annual general meeting. The Nomination Committee has also assessed the independence of the independent non-executive directors and considers all of them to be 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, and the perspectives, skills and experience that such director can bring to the Board. 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 perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board. The Nomination Committee is satisfied that the board diversity policy and the board nomination policy are successfully implemented with reference to the measurable objectives. The Nomination Committee will continue to monitor the implementation of the board diversity policy and the board nomination policy and will review the board diversity policy and the board nomination policy periodically to ensure their continued effectiveness.

In view of the new requirements in respect of the disclosure of nomination policy adopted during the year under the revised CG Code, the terms of reference of the Nomination Committee were revised in March 2019 to include duties of the Nomination Committee regarding the board nomination policy.



Corporate Governance Report

A summary of the board nomination policy and related nomination procedures is set out as follows:

Purpose and Objectives

The board nomination policy aims to set out the approach to enable the Nomination Committee to nominate a director to the Board.

Director Selection Criteria

In the determination of the suitability of a candidate, the Nomination Committee will consider a range of factors, including but not limited to the following selection criteria, before making recommendations to the Board:

- (a) the Company's prevailing board diversity policy and the requirements under the Listing Rules;
- (b) the independence of the independent non-executive directors and the independence criteria set out in Rule 3.13 of the Listing Rules;
- (c) potential or actual conflicts of interest of the candidate or the re-elected director;
- (d) the expected contribution that the candidate would add to the Board and to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business;
- (e) the candidate or the re-elected director's reputation for integrity, accomplishment and experience in the relevant sectors;
- (f) the candidate or the re-elected director's ability to commit and devote sufficient time and attention to the Company's affairs; and
- (g) other relevant factors which will be considered by Nomination Committee on a case-by-case basis.

The Nomination Committee has the discretion to nominate any person as it considers appropriate.

Nomination Procedure by Nomination Committee

The Nomination Committee will have a meeting at least once a year, and candidates, if any, will be identified for consideration. Nomination from the human resources department, external agencies, Board referrals, or shareholders, if appropriate, will be considered.

Where a retiring director, being eligible, offers himself/ herself for re-election, the Nomination Committee will review the overall contribution to the Company of the retiring director and will also determine whether the retiring director continues to meet the selection criteria set out in the board nomination policy.



The Nomination Committee will assess the eligibility of a candidate to become a director of the Company taking into account factors, including without limitation, his/ her reputation, character, knowledge and experience, and make recommendations for the Board's consideration and approval.

The Board will consider and approve the appointment, if appropriate, based upon the recommendation of the Nomination Committee.

***Monitoring, Reporting
and Review***

The Nomination Committee will report annually on the Board composition and make appropriate disclosures regarding the board diversity policy in the Corporate Governance Report of the Company's annual reports.

A summary of the board diversity policy is set out as follows:

Purpose and Objectives

The board diversity policy aims to set out the approach to enable the Nomination Committee to achieve diversity on the Board.

Policy Statement

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. A truly diverse Board will be achieved through a number of factors, including but not limited to differences in skills, knowledge, experience and background.

Measurable Objectives

Board appointments will be made on the basis of merit and fairness, with due regard to the benefits of diversity on the Board. The Nomination Committee will continue to have primary responsibility for identifying suitably qualified candidates to become members of the Board and, in carrying out this responsibility, will give adequate consideration to the board diversity policy. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's business model and specific needs from time to time, including without limitation, skills, knowledge, experience, gender and background.

The Nomination Committee will ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective.

***Monitoring, Reporting
and Review***

The Nomination Committee will report annually on the Board's composition and make appropriate disclosures regarding the board diversity policy in the Corporate Governance Report of the Company's annual reports. It will also monitor the implementation of the board diversity policy.



Corporate Governance Report

In accordance with the board diversity policy and the board nomination policy of the Company, the Nomination Committee considered the gender, age, cultural and educational background, and professional experience and industry expertise of potential candidates regarding the appointment of an independent non-executive director in 2019. It nominated Professor Ke Yang to the Board due to her expertise in the medical profession and her reputation of integrity, and it being satisfied that Professor Ke would provide independent and objective judgement and advice to the Board to safeguard the interests of the Company and the Shareholders as a whole.

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 (Koos) Bekker (non-executive director). The Remuneration Committee is chaired by Mr Ian Charles Stone.

The Remuneration Committee met three times in 2019. Individual attendance of each Remuneration Committee member is set out on page 78.

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 package of each director.

The Remuneration Committee's major work during the year 2019 includes the following:

- reviewing and recommending to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with a similar scale to ensure that the Company's remuneration packages are competitive to recruit the best talents in the industry and to retain key staff;
- reviewing and recommending to the Board on the remuneration packages for the directors, including the remuneration package of the new independent non-executive director in August 2019;
- assessing performance and, reviewing and approving adjustments to the remuneration packages for the members of the senior management team; and
- reviewing and approving compensation awards granted to senior management team, recognising their contributions to the Company and providing 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 or any of his associates was 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 with the market practice and conditions, the Company's goals and strategies. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles. For further details of emoluments of the senior management by band, please refer to Note 13 to the consolidated financial statements.

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



ACCOUNTS, RISK MANAGEMENT AND INTERNAL CONTROL

As part of the Board's responsibilities, the Board ensures that the assessment over the Group's performance and prospects are clearly and comprehensively presented. The directors acknowledge that it is their ultimate responsibility to prepare the accounts which give a true and fair view of the financial position of the Group on a going-concern basis and other announcements and financial disclosures. To assist the Board in discharging their responsibilities, management provides updates to the Board from time to time, including the Group's detailed business and financial position, in order to give the directors a balanced, understandable and clear assessment of the performance, position and prospects of the Group. Management also provides all necessary and relevant information to the Board, giving the directors sufficient explanation and information they need to discharge their responsibilities and make an informed assessment of financial and other information put before them for approval. The Company auditor's statement in respect of their reporting responsibilities is set out in the "Independent Auditor's Report" of this annual report.

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's strategic objectives. Risk management and internal control systems shall ensure the effective business operation, accuracy and reliability of the financial reporting, as well as the compliance with applicable laws, regulations and policies.

The Board acknowledges that it is their responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates their responsibility to the Audit Committee to review the practices of management with respect to risk management and internal control, including the design, implementation and supervision of the risk management and internal control systems, on a quarterly basis. The Audit Committee also reviews the effectiveness of the risk management and internal control systems on an annual basis. The Board is responsible for overseeing the risk appetite of the Company including determining the Company's acceptable level of risk, and proactively considering, analysing and formulating strategies to manage the Company's significant risks.

Under the supervision and guidance of the Board, the Company has adopted a risk management and internal control structure, referred to as the "Three Lines of Defence" model, to ensure the effectiveness of its risk management and internal control systems.

First Line of Defence – Operation and Management

Our First Line of Defence is mainly comprised of business and functional departments of each business group of the Company who are responsible for the day-to-day operation and management. They are responsible for designing and implementing controls to address the risks.

Second Line of Defence – Risk Management

Our Second Line of Defence is mainly the IC. They are responsible for formulating policies related to the risk management and internal control of the Company and for planning and implementing the establishment of integrated risk control systems. To ensure the effective implementation of such systems, they also assist and supervise the first line of defence in the establishment and improvement of risk management and internal control systems.



Corporate Governance Report

Third Line of Defence – Independent Assurance

Our Third Line of Defence is comprised of the IA and the Anti-fraud Investigation Department.

The IA holds a high degree of independence and is responsible for providing an independent evaluation on the effectiveness of the Company's risk management and internal control systems, and monitoring management's continuous improvement over the risk management and internal controls.

The Anti-fraud Investigation Department is responsible for receiving whistleblower reports through various channels and following up and investigating alleged fraudulent activities. It also assists management in promoting the "Tencent Sunshine Code of Conduct" (the "Sunshine Code") and the value of integrity to all employees of the Company.

The IA and the Anti-fraud Investigation Department have direct reporting lines to the Audit Committee.

The Three Lines of Defence model of the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board and management have always placed importance on the Company's risk management and internal control systems. In 2019, the Company has invested more resources in the continuous improvement of the risk management and internal control systems, which have also continuously increased the awareness of risk management among the employees. The internal control function has continuously worked closely with and provided proactive support to the business groups in their business development and risk management. Furthermore, the IA has also continued to promote the deployment of various internal audit projects and continuous audits to provide more effective and timelier independent evaluations. The Anti-fraud Investigation Department further strengthened the values of integrity among the employees, followed up and investigated the alleged fraudulent activities. The connection and interaction among the three lines of defence have been further enhanced to provide more effective support to the Company's development.

Risk Management

The Company is committed to continuously improving its risk management system, including structure, process and culture, and its risk management ability, to ensure long-term growth and sustainable development of the Company's business.

The Company has established a risk management system (including the "Three Lines of Defence" internal monitoring model as detailed above) which sets out the roles and responsibilities of each relevant party in the system as well as the relevant risk management policies and processes. Each business group of the Company, on a regular basis, identifies and assesses any risks that may negatively impact the achievement of its objectives, and formulates appropriate response measures. The Company also provides risk management and internal control training for staff on a regular basis.



Risk Management Process

Being an Internet and technology company with a wide variety of rapidly-changing businesses, the Company has adopted the following dynamic risk management process in response to the ever-changing risk landscape:

- Business and functional departments of each business group identify, assess and respond to risks in the course of operation in a systematic manner, escalating concerns and communicating results to the IC;
- The IC collects, analyses and consolidates a list of significant risks at the business level, and provides input on risk response strategies and control measures for such risks. These significant risks as well as the corresponding risk responses and control measures will be reviewed by management and subsequently by the Audit Committee before reporting to the Board;
- The IC analyses and evaluates the responses to significant risks from time to time, and reports to the Audit Committee at least once a year; and
- The Audit Committee, on behalf of the Board, assesses and determines the nature and level of the risks that the Company is willing to take in order to achieve its business objectives and formulates appropriate response strategies which include designating responsible departments for handling each significant risk. The Audit Committee provides guidance to the Company's management to implement effective risk management system with support from the IC.

Significant Risks of the Company

In 2019, management has identified and determined nine significant risks of the Company through the risk management process detailed above. As the Company's business scale, scope and complexity have evolved, so as its external environment, management considers that the Company is still facing the nine significant risks disclosed in 2018. "Regulatory and Compliance Risk", "Market Competition and Innovation Risk" and "Information Security Risk" have been increased while "Acquisition & Investment Management Risk" has been reduced to a lower level. The other risks remain at the similar level as last year.

On behalf of the Board, the Audit Committee supervises the overall risk status of the Company and assesses the change in the nature and severity of the Company's major risks. The Audit Committee considers that management has taken appropriate measures to address and manage the significant risks that they are responsible for at a level acceptable to the Board.



Corporate Governance Report

Below is a summary of the significant risks of the Company along with the applicable response strategies. The Company's risk profile may change and the list below is not intended to be exhaustive.

1. *Regulatory and compliance risk*

The Internet and technology industry is still evolving yet getting more mature. Regulatory authorities in different jurisdictions have been, in an attempt to keep up with such evolution, heightening respective regulatory requirements. As the Company continuously expands its businesses in the PRC and overseas to more countries and jurisdictions, it is required to keep up and comply with the relevant applicable laws and regulations in different countries and jurisdictions, including but not limited to laws relating to data protection, Internet information and cyber security, IP, gaming, Internet finance, etc. In addition, development of various industries around the world may be impacted by regulatory uncertainties.

The Company has invested enormous compliance resources and efforts to ensure compliance with applicable laws and regulatory requirements. This includes setting up special departments and specialist teams, as well as engaging external professional consultants to work closely with management to track on changes in relevant laws and regulations; and take appropriate responding actions or measures to ensure the Company is in compliance with such applicable laws and regulations in PRC and overseas. In addition, the Company also engages in active dialogue with relevant regulatory authorities, and exchanges view and information with relevant regulatory authorities on the market trends and the development of Internet and technology industry.

2. *Market competition and innovation risk*

The Internet and technology industry is highly competitive, innovative and ever-changing at all times. The development of technologies brings evolutionary changes to the existing business models; and the cross-sectoral expansion of non-Internet and technology companies bring in more new players into the market. Users' expectations for innovative products and services are also increasing. Therefore, how to attract new users and stay competitive are still the key challenges of the Company. Any lagging in innovation and development of technology and product would impair the core competitiveness of the Company.

The Company stays on top of trends in market and industry development, as well as user needs, and keeps up with the technological development through innovation. Internally, the Company stays focused on expectation changes in user experience, stays active in promoting the incubation of new business, keeps exploring new forms of business, and recruits talent, optimises its organisational structure, and enhances the innovation capabilities by improving talent quality with cultivating young talent. The Company also continuously enhances its technical capabilities and innovation environment to develop products that meet the expectations of the market. Externally, the Company co-creates ecosystems through strategic investments and acquisitions, as well as collaboration with business partners. As always, the Company leverages the strength of the new ecosystems to seek new business partners to explore new business opportunities and better approach to responding to the market needs and expectations. With the aim to promote "mutual benefit and win-win" concept, the Company has established a number of open platforms to incubate potential startup companies, and enhance its collaboration with business partners and its competitiveness in the market.



3. *Information security risk*

Protecting user and customer data is the top priority of the Company, and the Company is fully aware that any loss or leakage of such information could have a significant negative impact on the affected users and customers and the Company's reputation. This could in turn lead to potential legal actions against the Company.

The Company is obliged to protect user and customer data, and as such, the Company strives to provide the highest level of protection on such information and data. In this regard, the Company has formulated and kept optimising control measures to protect such information and data. Information security is ensured through effective management systems, encryption, access restrictions and controls, and continuously improving the business continuity and disaster recovery management. In addition, the Company arranges regular reviews by independent specialists over the Company's data protection practices; and provides training for staff to enhance their awareness of information security.

4. *ToB business risk*

The Company has actively developed various ToB businesses related to Industrial Internet. With the rapid development of the ToB business, if the Company fails to adjust its business strategy to timely respond to changes in industry trends and market needs, to keep optimising its organisational structure with support from professional talents, to improve its internal management system and processes for ToB business; and to improve its cooperation mechanisms with various business partners, it may affect the development of its ToB business and affect the achievement of its strategic objectives.

The Company is accumulating and solidifying its experience in the ToB business, it does so by analyzing trends in different industries and changes in user needs. The Company has started to increase its foot prints in ToB business and is providing supports to the companies in their digitalisation initiatives via Cloud and AI solutions. This has been applied across many industries including finance, education, etc. The Company is continuously developing its ToB business, and keeps optimising its management over business structure, human resources, management policies and business processes to ensure the effective operation of the ToB business for rapid and sustained development.

5. *Business continuity risk*

The stability of servers and network infrastructure for products and platforms of the Company is of vital importance for the successful operation of the Company's business as well as the provision of high-quality user experience. Any material functional defect, interruption, breakdown or other issue in connection is likely to adversely impact the Company's businesses. In addition, the Company's operations may be negatively affected or disrupted by the natural disasters, social security events, or epidemic diseases. Relevant incidents may damage workplaces and equipment that are vital to the Company and its business partners, and threaten the health of their employees.



The Company has been continuously investing in the network infrastructure for its products and platforms to enhance its business recovery and continued capabilities for providing stable support to the business operations and development. Various business departments are also engaged in business continuity management to ensure the smooth operation of the Company's business. In addition, the Company has established dedicated teams to develop business contingency plans and has performed periodic drills on the plans to ensure their effectiveness. The dedicated teams have also reviewed the plans as well as the result of the drills. In response to the COVID-19 outbreak in late 2019, the Company has activated the emergency response mechanism in the business contingency plans including providing mobile office and various functional support, to support the business group in responding to urgent needs through adjusting resource allocation and timely deployment of emergency measures to ensure continued operations of the Company's business. For example, the Company timely expanded the capacity of Tencent Meeting to meet the massive needs for mobile work during the epidemic. Tencent Education actively responded to "Suspending Classes Without Stopping Learning", to meet the sudden online education needs, and provide assurance for schools and students' educational management and online learning. The Company has great concerns on employee safety. On top of meeting the basic regulatory requirements, the Company has implemented additional measures and announced policies in a timely manner to further protect the safety of all employees.

6. *Crisis management, public relations and reputation risk*

As one of the China's largest technology companies with a diverse portfolio of businesses, products and investments, users and business partners, the Company always attracts very high attention from the public and media. The Company needs to consider possible crisis and actively respond to them, to avoid worsening of problems or escalation of crisis. The Company also needs to disclose comprehensive and proper information to the public; otherwise, it may damage the Company's reputation, brand and image, and adversely affect the business and prospects of the Company.

In response to crisis, the Company has established the corresponding emergency response mechanism, to follow up on the progression of crisis, assess risks, make prompt decisions and adjust its businesses to reduce the impact. The Company has set up professional public relations department and teams for crisis management to continuously improve its crisis management and public relations capabilities, with established emergency response and public relations management mechanisms. The crisis management teams have maintained close interaction with management and business groups, to continuously gather public opinions, analyse relevant market information for management to enable management timely respond and disclose comprehensive and proper information to the public according to the Company's policies and procedures; and protect the Company's reputation.



7. *Social responsibility risk*

With the diverse products and platforms of the Company and its expanding user base, the products and platforms of the Company have gained considerable influence in wider society, and are subject to increased scrutiny from a social responsibility perspective.

“Value for Users, Tech for Good” is the Company’s new vision and mission launched on 11 November 2019. The “Tencent Game Guardian Platform” is established to lead the development of anti-indulgence system to prevent unhealthy gaming habits of juveniles. The Company provides more convenient solutions for public affairs and government services through the use of digital technology, such as the “Yue Sheng Shi” mini program. The Company promotes transformation of various industries, i.e. healthcare, education, travel, tourism, etc., and creates value for enterprises and consumers. The Company uses Internet technology and its technological capabilities to improve people’s life and support social and commercial industrial development. The “Xplore Prize” is initiated by the Company to encourage the study of key technologies and basic science. The Company promotes “Neo-Culture Creativity” to actively promote and enrich Chinese traditional culture in China and overseas. As China’s first Internet and technology enterprise with a charity foundation, the Company is committed to building trust through technology, to support the development of philanthropy.

In response to the COVID-19 epidemic in late 2019, the Company provided supports via technology and charity funding, and actively fought the epidemic together with the society through its products and platforms. The Company’s ability to effectively access users allows the creation of a variety of digital tools in the battle against the epidemic. In addition, the Company immediately set up a RMB1.5 billion charity foundation to help the society fight the epidemic through providing medical protection supplies, supporting basic scientific research, caring for anti-epidemic personnel, and supporting public management of the epidemic.

8. *Fraud risk*

In recent years, fraudulent activities have occurred frequently in the Internet and technology industry and therefore integrity has been an important concern. As the Company continues developing its business, its business scale and complexity increased, and consequently the fraud risk inevitably increased to a certain extent. For example, fraudulent activities caused by collusion between suppliers/business partners and employees can have a negative impact on reputation and financial position of the Company.



The Company, with its belief in the value of integrity, has zero tolerance for fraud, and is determined to fight against any fraudulent activities. The Company has established effective internal control systems and is continuously improving it. These systems have been strengthened by systematic, transparent control measures and procedures. To enhance and promote integrity, the Company continuously conducts various training and propaganda for its employees, suppliers and business partners. For employees, the Company has established a Tencent Sunshine Code (the “Sunshine Code”) that the employees shall strictly follow during their employment and in the course of business dealing with suppliers and business partners. For suppliers and business partners, the Company cooperates with them to create an ecosystem with integrity. The Company has signed an Anti-commercial Bribery Declaration with its suppliers and business partners to alert the counterparts the importance of ethical value and to build a healthy and transparent environment for business. Furthermore, the Company has set up an Anti-fraud Investigation Department for years to proactively collect whistleblowing cases from various channels, and to follow up and investigate alleged fraudulent cases on a timely basis. The Company will terminate the employment immediately with any employee who has been found to be involved in any fraudulent activities. The Company may also pass the relevant case for juridical process according to the relevant laws and regulations under more serious circumstances. Any supplier/business partner found to be involved in any fraudulent activities will be blacklisted and deprived of the opportunity to work with the Company permanently. The Company will announce to the public those criminal cases and serious abuse-of-power cases that were investigated and handled by the Company via the “Sunshine Tencent” WeChat official platform. This shows the Company’s determination to fight corruption and fraud, as well as its commitment towards creating a virtuous and honest atmosphere within the Company and the industry.

9. *Acquisition and investment management risk*

The Company has a certain scale of investment activities in diverse fields. It is important for the Company to adopt robust procedures in the formulation of investment strategies and strong treasury management, both at the investment evaluation stage as well as the post-investment stage. Failure to promptly manage investment risks could hinder the realization of investment strategies and lead to probable financial loss of the Company.

The Company takes the management of investment risks seriously, and has, amongst other things, established an Investment Committee under the Board, dedicated an investment team to identify investment opportunities, appointed finance, legal and other relevant professional teams to manage relevant risks and put in place the investment risk evaluation and approval process. There is also a designated professional team that regularly reviews the Company’s treasury position and, continuously expands its financing channels and capabilities to meet the needs from the Company’s business operations as well as acquisitions. The Company has also designated finance, legal and other relevant professional teams to support and monitor the performance of the investee companies. These teams periodically analyse and review relevant operating and financial information of the investee companies to ensure that they continue to satisfy the Company’s investment strategies. In addition, the Company has invested resources in IA and IC to empower investee companies, and to continuously support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.



Internal Control

The Company has always valued the importance of the internal control systems and has implemented its internal control systems according to the COSO Framework.

Management of the Company is responsible for the design, implementation and maintenance of the effectiveness of internal control systems. The Board and the Audit Committee are responsible for monitoring and overseeing the performance of management over the internal control systems to ensure its appropriateness and effectiveness.

The Company's internal control systems clearly define the roles and responsibilities of each party as well as the authorisation and approvals required for the key actions of the Company. Policies and procedures are in place for the key business processes. This information is clearly conveyed to employees in practice and emphasized the importance of the internal control systems. All employees must strictly follow the policies which cover, amongst other things, financial, legal and operational issues that set the control standards for the management of each business process.

In order to further strengthen the accountability of the management team in the internal control systems of the Company and to assist in determining the effectiveness of such internal control systems, the management team of each business group conducts self-assessment and confirms the internal control status of the business group for which it is responsible. The IC assists management in preparing a self-assessment questionnaire according to the COSO Framework and guides the management of each business group to carry out the self-assessment. The IC is also responsible for collecting and summarising the results of self-assessment. The Chief Executive Officer of the Company reviews this summarised self-assessment of each business group, assesses the general effectiveness of the internal control systems of the Company and submits the written confirmation thereof on behalf of management to the Audit Committee and the Board.

In addition, the IC supervises the establishment of the risk management and internal control systems set up by management, ensures that management has implemented appropriate measures and reports the general situation of risk management and internal control of the Company to the Audit Committee on a quarterly basis. The IA, serving as the independent third line of defence, conducts objective evaluation on the effectiveness of the Company's risk management and internal control systems and reports the results to the Audit Committee.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems.

The review process comprises of, among other things, meetings with management of business groups, IA, IC, legal team, and the external auditor, reviewing the relevant work reports and information of key performance indicators, the management's self-assessment on internal control as detailed above and discussing the significant risks with senior management of the Company.



Corporate Governance Report

The Board is of the view that throughout the year ended 31 December 2019, the risk management and internal control systems of the Company are effective and adequate.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by staff of the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the report of the Audit Committee, the Board also believes that sufficient resources have been obtained for the Company's internal audit function and that its staff qualifications and experience, training programmes and budgets are sufficient.

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, businesses 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 sends notices to shareholders for annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. In addition, the Company has developed and maintains the shareholders communication policy, which is available on the Company Website, and the dividend policy.

The Company's general meetings provide a transparent and open platform for the Company's shareholders to communicate with the Board and the senior management team. The Chairman, other members of the Board and relevant members of the senior management team, under normal circumstances, attend to answer questions raised and discuss matters in relation to the Company in an open manner. Save as Messrs Li Dong Sheng and Iain Ferguson Bruce, all directors attended the 2019 annual general meeting and the extraordinary general meeting held on 15 May 2019, with a view to understanding the views of the Company's shareholders. The company secretary provided the minutes of the 2019 annual general meeting and the aforesaid extraordinary general meeting to all directors to have a thorough understanding of the views of the Company's shareholders. 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 following procedures, details of which are also set out on 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, a separate resolution 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 that 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 shareholders on the voting procedures will be answered before the poll voting starts. 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, shareholders can contact or send enquiries to us via the Company Website. 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.

DIVIDEND POLICY

The Company endeavours to maintain sufficient working capital to develop and operate the business of the Group and to provide sustainable returns to the shareholders of the Company.

Under the current dividend policy of the Company, dividends may be declared out of the distributable earnings or reserves of the Company. While the dividend payout ratio is not pre-determined, in proposing or declaring any dividend payout, the Board shall take into account the Group's earnings performance, general financial position, debt covenants, future working capital and investment requirements, and other factors that the Board considers relevant and appropriate.

DISCLOSURE OF OTHER INFORMATION

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

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code. The Company has also adopted an insider dealing policy for employees for securities transactions by employees who are likely to be in possession of inside information relating to the Company, the terms of which are no less exacting 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 2019.

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/her appointment.



Corporate Governance Report

Directors and Officers Liability Insurance

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

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 pages 127 to 135. During the year ended 31 December 2019, the remuneration paid/payable to the Company's external auditor, PwC, was disclosed in Note 8 to the consolidated financial statements. The audit and audit-related services conducted by the external auditor mainly comprise of statutory audits and reviews for the Group and its certain subsidiaries. The non-audit services conducted by the external auditor mainly include professional services on risk management and internal control review, M&A advisory service and tax advisory service.

Framework for Disclosure of Inside Information

The Company has in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the shareholders and stakeholders to assess the latest position of the Group.

Under the framework, if an employee is aware of any project, transaction, information or situation which he thinks could potentially be inside information, he should contact the Head of Compliance, the General Counsel and the Company Secretary as soon as possible. Legal analysis and consultations with the Company's directors and senior executives will be made so as to identify whether any such information constitutes inside information and is required to be disclosed to the public pursuant to the SFO. The framework and its effectiveness are subject to review on a regular basis according to established procedures.



Environmental, Social and Governance Report

ABOUT US

We employ technology and the Internet to enrich people's lives. Our communication and social network platforms (Weixin and QQ) connect people to each other, to information media, and to services we use in our daily lives within the convenience of a button click. Our broad reaching platforms help branded goods and merchants communicate with people in China in the hundreds of millions. Through financial technology and services, we help support our business partners' growth into the digital age. We invest in talented people and cultivate an environment to innovate technology. Our goal is to continue to create new and effective ways to use the Internet for businesses and for people.

VISION & MISSION

In 2019, we redesigned Tencent's vision to make an even more socially responsible company. Our mission statement is now "Value for Users, Tech for Good". Part of the mission is enhancing the user experience with a social benefit. We strive to incorporate social responsibility in all areas of the company including our products, our services, in technology innovation, cultural preservation and business digitisation. The goal is to build a sustainable cooperation with society.

OUR CULTURE

Our corporate culture values "Integrity, Being Proactive, Cooperation and Creativity". "Integrity" means to uphold principles, ethics, honesty and fairness; "Being Proactive" means taking initiative or becoming an early adopter to contribute to social welfare, taking responsibility or pushing for a higher standard; "Cooperation" means to be inclusive of our community and working together to make progress and evolve; and "Creativity" means to strive for innovation and explore all the possibilities for a better future.

OVERVIEW

This report provides information on the Group's annual performance for environmental, social and governance ("ESG") for the year of 2019. The report is to be read together with this annual report, in particular the "Corporate Governance Report" within this annual report, as well as the sections headed "Corporate Governance" and "Our Culture" on the Company Website.

SCOPE OF THIS REPORT

This report aims to provide a balanced representation of the Group's ESG performance in terms of environment, workplace, community, supply chain management and product responsibility. We will focus on each of these areas in turn in this report, in particular those economic, environmental and social issues that could have a material impact on the sustainability of our operations and that are of interest to stakeholders.



Environmental, Social and Governance Report

ESG STRATEGY, MANAGEMENT APPROACH, PRIORITIES AND OBJECTIVES

We believe that it is important to formulate effective strategies to balance the economic, environmental and social benefits of our activities with our other business targets. We have fully integrated ESG and managerial considerations into our company management and operations as part of our corporate development strategy, with a particular focus on fostering closer connections with our stakeholders, listening to the voices of our users, working openly with partners to overcome challenges, caring for and growing with employees, and taking on more responsibilities within society. The goal of our ESG strategy is to be recognised as a conscientious and responsible Internet company. In pursuit of this vision, we embrace the principle of sustainability, uphold integrity and promote shared growth and development within the industry, and put environmental protection, staff development and community welfare at the forefront. We conduct and review our ESG strategy in five dimensions as detailed below.

Five Dimensions of our ESG Strategy

1. Business operations
 - Operate in compliance with applicable laws and regulations
 - Operate with integrity and protect shareholders' interests
 - Care for employees, provide them with a safe and comfortable work environment and training and development opportunities
 - Establish a diverse corporate culture
2. Users
 - Consistently listen to the voices of our users, respond to user inquiries and complaints, concurrently enhancing product and service quality
 - Be honest to users and protect their interests
 - Protect user privacy and data security, and provide users with a healthy environment
 - Prioritise users' interests in business decision-making
3. Business partners (including suppliers and investee companies)
 - Ensure our partners receive fair treatment and benefit from their collaboration with us
 - Allow investee companies to maintain autonomy for their business development and meet them on a regular basis for exchange of industry knowledge and know-how
 - Hold regular meetings with our partners to review their performance and explore possible collaboration opportunities
 - Combat behaviours which are harmful to the interest of our partners by setting up an independent steering group on business ethics and anti-bribery practice
 - Encourage our partners to reflect the ethics and values of our business practice



Environmental, Social and Governance Report

4. Community

- Establish a platform for charity donations
- Promote innovation and the establishment of a legal framework and comprehensive and efficient monitoring and maintenance system to protect IP rights
- Contribute to the industry and continue to provide an open platform

5. Environment

- Make protection of the environment one of our priorities
- Adopt a sustainable investment strategy
- Remain committed to environmental sustainability

Through this approach we are able to create a favourable environment that will enable us to provide quality services to Internet users and promote the positive development of the wider society.

The Board oversees ESG issues with the support of the Corporate Governance Committee. Information on ESG issues are reported to the Corporate Governance Committee by an internal working group comprising of members from various departments and business groups tasked with executing our ESG strategy and making recommendations to the Corporate Governance Committee.



Environmental, Social and Governance Report

Stakeholder analysis

We understand the importance of the feedback from our stakeholders (including the community and public, employees, government and regulatory bodies, non-government organisations and media, shareholders and investors, suppliers and our users) on our ESG performance. Therefore, we have established effective communication channels with our stakeholders (in alphabetical order) as follows:

| Stakeholders | Key topics | Key communication channels |
|--|--|--|
| Community and public | Charity Volunteering Environmental protection | Tencent Foundation, fundraising platform |
| Employees | Employee benefits Career development Healthy work environment | Employee satisfaction survey, employee training, annual employee rally, face-to-face discussion forum, featured magazines, social media platform |
| Government and regulatory bodies | Compliance Corporate governance | Meetings, policy consultation, incident reporting, official visit, information disclosure |
| Non-government organisations and media | Product and service quality Environmental protection Compliance Charity | Social media platform, industry events, press conference |
| Shareholders and investors | Investment return Business strategy Information transparency | Corporate announcements, investor conference, official website, regular meetings |
| Suppliers | Fair cooperation Integrity | Regular meetings, supplier assessment, site visit |
| Users | Product and service quality Privacy protection | User experience research, customer service hotline, online customer service, Weixin/WeChat and face-to-face customer support |



Environmental, Social and Governance Report

Assessment on the materiality of the ESG topics

In 2019, we had not only discussed the materiality of the ESG topics with our stakeholders through the abovementioned communication channels but also conducted an online survey to understand the topics that our stakeholders believe to be material to the Group's business. Based on the survey results and our communication with stakeholders, the materiality of the ESG topics is evaluated as follows:



Our ESG Direction

Our ESG strategy requires the participation of all of our product lines and platforms, and participation from across the wider Internet industry. We will continue to place more emphasis on ESG issues, and encourage every individual, enterprise and organisation to take part in the implementation of our ESG strategy.

Our “Connection” strategy has significant implications for our ESG initiatives. Important changes can be achieved through connecting millions of Internet users as well as developing their modes of communication and living and creating more exciting opportunities for society. In addition, through the “smart living” system in QQ and Weixin/WeChat, people and public services can be digitally connected, which in effect facilitate developments in transport, healthcare, environmental protection, public safety and other social arenas. This is important for optimising the distribution of societal resources, driving innovation in public services, improving service quality, breaking down communication barriers and ultimately benefiting the wider community. We will leverage our core capability in the Internet, technology and communication spheres to develop innovative approaches to resolving social issues, promoting social development and protecting the interests of the public. We also aim to drive ESG awareness in society, through collaborating with our stakeholders and other industry players.

Going forward, we will continue to enhance our corporate management system and integrate ESG considerations into our operations. We will closely cooperate with our stakeholders with the aim of creating a better future.



Environmental, Social and Governance Report

ENVIRONMENT

Conservation and protection of the environment are at the highest policy level in China. The *Law of the People's Republic of China on Energy Conservation* requires any entity or individual to meet a mandatory obligation to conserve energy. According to *Environmental Protection Law of the People's Republic of China*, all entities and individuals have an obligation to protect the environment, more specifically enterprises shall minimise and reduce waste production and impact to the ecology. We recognise the importance of protecting the environment and the conservation of natural resources. For example, our Tencent office buildings in Shenzhen have installed a multitude of energy saving technologies and educated our employees on how to better save energy. The same is being adopted to offices in other locations worldwide. We also build data centres with considerations for the environment. Throughout 2019, Tencent has complied with applicable laws and regulations for conserving and protecting our environment.

Energy Saving Measures taken in our Office Building

We have taken environmental protection as one of our priorities when building the new headquarters, Tencent Binhai Tower, in Shenzhen. The construction has been certified as meeting the LEED-NC Gold Standard. In 2019, the building's operation was within the LEED-EB operational standard and has complied with LEED-EB standards since its grand opening. In March 2019, the building officially obtained LEED-EBOM Gold Certification. The property management company of the Shenzhen headquarters has obtained ISO 14001 (environmental management) certification, ISO 9001 (quality management) certification and GB/T 23331 (energy management system) certification. We have implemented various measures to enhance efficiency of energy use and reduce water consumption and emissions.

The air conditioning systems at Tencent Binhai Tower reduce energy consumption by alternating power from hydro-powered pumps and electric motors. In 2019, we invested to optimise air conditioning terminal control system and integrated building management system, and to improve the matching of system cooling supply and end cooling demand for the purpose of energy saving and operational efficiency optimisation. We have further optimised energy savings in the air conditioning and building management systems by installing automated energy monitoring devices. Energy consumption from air conditioning is further reduced by using natural ventilation during seasons of mild or comfortable weather. Smart lighting was adopted to allow remote and automatic control over lighting in all office working areas and transitioned from conventional to an LED lighting system for the public areas.

The office building of Tencent Binhai Tower uses a water reclamation system to reclaim water condensation from the air conditioning system, and drain water from the water filtration system, employee shower area and server cooling towers. The collected water, after being filtrated and purified, is reused for toilet flush water, irrigating office plants and cleaning the basement carpark. In addition, we promote a filtrated drinking water system in place of plastic bottled water. This measure reduces the waste from plastic packaging materials and indirectly reduces CO₂ emissions generated from the vehicles that deliver bottled water.



We have adopted energy saving measures throughout our daily operations. For example, we have applied stricter on-site management of each building property by combining the normal procedures with an energy consumption inspection. When people leave the work space, air conditioning, lights and office equipment in the corresponding office areas are required to be turned off. We have also set automatic shutoff for unused drinking water dispensing units in work areas to reduce energy consumption and eliminate waste.

We monitor the levels of air pollutants such as $PM_{2.5}$, PM_{10} , carbon dioxide, carbon monoxide, sulphur dioxide, nitro dioxide inside and outside Tencent Binhai Tower with an online monitoring system and display the data on a real-time basis. To monitor air quality in the building, we have installed a smart ventilation system (which regulates the ventilation automatically in response to carbon monoxide levels) in the underground parking garage and air ventilation system (which monitors the ventilation continuously for carbon dioxide levels) in the office area. We have upgraded the cooking ventilation units in the kitchens of our office cafeteria. The cooking ventilation is comprised of fire-resistant environmental exhaust hoods that remove oil droplets and filter the cooking ventilation with photolysis purification, activated carbon filtration and air ionisation to remove cooking odours. Our filtration of the cooking ventilation is in compliance with the PRC national standards GB18483-2001.

Green Energy Saving Measures taken in our Data Centres

We endeavour to fulfil our responsibility to protect the environment by applying innovative technology to our data centres and be the exemplar of green data centres within the PRC.

In terms of site selection for Tencent's large-scale data centre campus, we sought out geography with low temperature climates to help with energy conservation. We also evaluated local availability of renewable and clean energy. Ultimately, we selected the following three areas: the Guian New Area, rich in hydropower energy, Zhangjiakou Huailai, abundant in wind power resources, and Chongqing Water and Soil Hi-tech Eco-City where clean energy is widely used for power.

In terms of green data centres, we have organised environmental impact assessment documents for all self-build data centres, and have completed the relevant approvals or filings in accordance with the *Environmental Impact Assessment Law of the People's Republic of China*. Shanghai Qingpu Data Centre, self-built by Tencent, and Shenzhen Guangming Data Centre, custom-built by a contracted third-party, which started operations respectively in 2016 and 2019, have been certified as attaining 5A grade (highest environment rating) for the "Data Centre Green Rating" organised by domestic authorities such as the Open Data Center Committee (ODCC), indicating the data centres are domestic leaders in terms of energy conservation and environmental protection. In addition, in 2019, Tencent Tianjin Data Centre was a successful pilot programme for employing waste heat recovery by redirecting the heat to provide office work area heating in its office building during winter. This programme reduced standard coal consumption by approximately 1,600 tons each year.

When it comes to technologies employed by data centres, Tencent's fourth-generation T-block data centre energy saving technologies (comprising (i) photovoltaic + High Voltage Direct Current ("HVDC") technology for electrical systems; (ii) indirect evaporative cooling units; (iii) Tnebula smart control system; and (iv) fully commercialised project delivery solution) have been widely used in Tencent's large data centre campuses in Qingyuan, Yizheng, Chongqing, Guian, etc.



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We have adopted the T-base large-scale data centre campus construction model in the construction of data centre campus in Qingyuan, Yizheng, Huailai, etc. which has placed us at the leading position in terms of the efficient use of space and the standardisation of the construction process. It not only shortens the construction time but also minimises the impact on the environment and increases the power usage efficiency (“PUE”) of our data centres.

The annual average PUE of our data centres which are located in low-temperature climate (including the one in Shenzhen) is below 1.25. The annual average PUE of data centres within the scope of “Environmental Performance Summary” is 1.35, a decrease of 0.02 compared with the previous year. We expect that large-scale data centre campus will achieve an annual average PUE of 1.20 after the T-base campus is completed and T-block technology is promoted and applied. These centres will not only serve as energy efficient data centre for Tencent and our business partners, but will also help to facilitate standardised application of the T-block technology in the industry.

In 5G application scenarios, we use intelligent IDC products such as Mini-TB for which we possess independent intellectual property rights to meet the needs of edge computing endpoints, improve energy efficiency and promote the development of related industries.

We have shared our experience and technology in building green data centres and relevant products with other industry businesses so that HVDC, micro module and indirect evaporative cooling technologies have been widely adopted in the PRC data centre business. We have also helped establish industry standards for HVDC and micro module technologies in order to enhance energy saving efforts among other companies in the industry. In the future, we will further promote T-block technology, Mini-TB and smart IDC series products such as the Tnebula smart control system. We will strive to enhance the PUE while improving the efficiency of the data centre construction process.



Environmental, Social and Governance Report

Environmental Performance Summary

Below are some key environmental indicators, and are compiled based on the “ESG Reporting Guide” in Appendix 27 to the Listing Rules. Unless otherwise specified, the following data covers Tencent’s major office buildings and the main data centres in Mainland China.

1. Emissions

1.1 Office Buildings

| Indicators | For the year ended 31 December | |
|--|--------------------------------|------------|
| | 2019 | 2018 |
| Total GHG emissions (Scopes 1 and 2) (tonnes) | 113,501.50 | 102,831.74 |
| Direct GHG emissions (Scope 1) (tonnes) | 3,785.86 | 2,554.31 |
| Including: Gasoline (tonnes) | 197.25 | 191.00 |
| Diesel (tonnes) | 10.87 | 11.07 |
| Natural gas (tonnes) | 3,577.74 | 2,352.24 |
| Indirect GHG emissions (Scope 2) (tonnes) | 109,715.64 | 100,277.43 |
| Including: Purchased electricity (tonnes) | 109,715.64 | 100,277.43 |
| Total GHG emissions per employee (tonnes per employee) | 1.90 | 2.01 |
| Total GHG emissions per floor area (tonnes per square metre) | 0.07 | 0.09 |
| Hazardous waste (tonnes) | 2.40 | 2.51 |
| Hazardous waste per employee (tonnes per employee) | 0.00004 | 0.00005 |
| Non-hazardous waste (tonnes) | 5,227.11 | 4,566.52 |
| Non-hazardous waste per employee (tonnes per employee) | 0.09 | 0.09 |

1.2 Data Centres

| Indicators | For the year ended 31 December | |
|---|--------------------------------|------------|
| | 2019 | 2018 |
| Total GHG emissions (Scopes 1 and 2) (tonnes) | 743,287.01 | 612,521.16 |
| Direct GHG emissions (Scope 1) (tonnes) | 316.35 | 36.76 |
| Including: Diesel (tonnes) | 316.35 | 36.76 |
| Indirect GHG emissions (Scope 2) (tonnes) | 742,970.66 | 612,484.40 |
| Including: Purchased electricity (tonnes) | 742,970.66 | 612,484.40 |
| Hazardous waste (tonnes) | 8.00 | — |
| Non-hazardous waste (tonnes) | 1,811.27 | 1,350.76 |



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Note:

1. Due to its business nature, the significant air emissions of the Group are GHG emissions, arising mainly from fuels and purchased electricity produced from fossil fuels.
2. The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data for the year ended 31 December 2019 is presented in carbon dioxide equivalent and is calculated based on the "2017 Baseline Emission Factors for Regional Power Grids in China for CDM and CCER Projects" issued by the Ministry of Ecology and Environment of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" issued by the Intergovernmental Panel on Climate Change (IPCC).
3. Diesel is consumed by backup power generators.
4. Hazardous waste produced by the Group's office buildings mainly includes waste toner cartridge and waste ink cartridge from printing equipment. Waste toner cartridge and waste ink cartridge are centralised and disposed of by printing suppliers. Such data covers all office buildings of the Group in Mainland China.
5. Non-hazardous waste produced by the Group's office buildings mainly includes domestic waste and non-hazardous office waste. Domestic waste is disposed of by the property management companies and kitchen waste recycling vendors, and its data is not available, therefore estimation of domestic waste is made with reference to "Handbook on Domestic Discharge Coefficients for Towns in the First Nationwide Census on Contaminant Discharge" published by the State Council. Non-hazardous office waste is centralised for disposal by vendors; hence such data covers all office buildings of the Group in Mainland China.
6. Hazardous waste produced by the Group's data centres mainly includes waste lead-acid accumulators. Waste lead-acid accumulators are disposed of by qualified waste recycling vendors.
7. Non-hazardous waste produced by the Group's data centres mainly includes waste servers and waste hard drives. Waste servers and destroyed waste hard drives are centralised and recycled by waste recycling vendors. Such data covers all the Group's data centres.



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2. Use of resources

2.1 Office Buildings

| Indicators | For the year ended 31 December | |
|--|--------------------------------|------------|
| | 2019 | 2018 |
| Total energy consumption (MWh) | 205,092.26 | 167,488.48 |
| Direct energy consumption (MWh) | 19,144.17 | 12,852.04 |
| Including: Gasoline (MWh) | 805.77 | 780.24 |
| Diesel (MWh) | 41.33 | 42.10 |
| Natural gas (MWh) | 18,297.07 | 12,029.70 |
| Indirect energy consumption (MWh) | 185,948.09 | 154,636.44 |
| Including: Purchased electricity (MWh) | 185,948.09 | 154,636.44 |
| Total energy consumption per employee (MWh per employee) | 3.44 | 3.28 |
| Total energy consumption per floor area (MWh per square metre) | 0.12 | 0.14 |
| Running water consumption (tonnes) | 1,283,749.73 | 973,413.06 |
| Running water consumption per employee (tonnes per employee) | 21.52 | 19.07 |
| Recycled water consumption (tonnes) | 4,076 | 5,461 |

2.2 Data Centres

| Indicators | For the year ended 31 December | |
|--|--------------------------------|------------|
| | 2019 | 2018 |
| Total energy consumption (MWh) | 1,301,161.66 | 938,988.70 |
| Direct energy consumption (MWh) | 1,203.16 | 139.82 |
| Including: Diesel (MWh) | 1,203.16 | 139.82 |
| Indirect energy consumption (MWh) | 1,299,958.50 | 938,848.88 |
| Including: Purchased electricity (MWh) | 1,299,958.50 | 938,848.88 |
| Average PUE | 1.26~1.52 | 1.27~1.47 |
| Running water consumption (tonnes) | 1,466,760.63 | 933,813.00 |



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Note:

1. The scope of use of resources data is appended to include 12 new office buildings which were put into operation in 2019.
2. Total energy consumption is calculated based on the data of purchased electricity and fuel with reference to the coefficients in the National Standards of the PRC “General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008)”.
3. The Group's water supply resources are from the municipal water supply.
4. Recycled water consumption is the reclaimed domestic water treated by the wastewater treatment system equipped at Tencent Tower A and Tower B in Chengdu.
5. Data of diesel consumption reported above only covers the data centres whose diesel fees are directly borne by the Group.
6. Average PUE (Power Usage Efficiency) is the annual average data of PUE of the Group's data centres. PUE, an indicator of the power efficiency of a data centre, is the ratio of total facility energy over IT equipment energy.
7. Data of running water consumption reported above only covers those data centres wholly used by the Group where operators could provide such data.
8. Data of packaging materials is not applicable to the Group.



WORKPLACE

Employee Development and Training

We have a well-established performance management system. A performance assessment for each employee is conducted by that employee's supervisor every six months and employees are required to report to their supervisors a performance target after each assessment. Supervisors are encouraged to provide constructive feedback from time to time to assist the personal growth of each employee.

Employee talent is our most important asset. We make significant investments in employee development and training. We encourage employees to attend external and internal trainings. We have adopted relevant policies to ensure that employee trainings are available in a user-friendly system. For example, supervisors are required to assist in designing the professional development plans for the employees and evaluate the effectiveness of the trainings received by the employees. To ensure the quality of the trainings, we have developed policies which set out requirements for the qualifications and experience of the instructors and the objectives of the programmes and work with educational institutions to jointly develop training programmes.

In 2007, we founded our own training university, Tencent Academy. It offers different training programmes for each stage of an employee's career, including an induction, on-the-job training and leadership training. It has also set up an online learning platform and a mobile learning system in order to allow employees to learn anytime and anywhere. In 2017, one of our training programmes won the Excellence in Practice Award by the Association for Talent Development.

As of 31 December 2019, Tencent Academy currently offers over 500 live courses that can be attended in person, 8,800 online courses and employs over 1,500 in-house part-time instructors. In 2019, we hosted live courses nearly 10,000 times and gave over 400 courses over livestream. The average in-house training hours per employee was 33 hours and 98% of employees were trained.

We also intend to make available our training resources to business partners and other companies in the industry in order to improve employee training standards.



Environmental, Social and Governance Report

Equal Opportunities and Diversity

In accordance with the *Labour Law of People's Republic of China* (the "Labour Law") promulgated on 5 July 1994 and amended on 29 December 2018, and the *Labour Contract Law of People's Republic of China* (the "Labour Contract Law") promulgated on 29 June 2007 and amended on 28 December 2012, while hiring employees, we shall not discriminate against any applicants due to their nationality, race, gender and religion, we shall enter into written employment contracts with each employee. As at 31 December 2019, we had 62,885 employees. We have entered into employment contracts with all employees. Our employment practice complies with applicable laws and regulations (including those which prohibit underage and forced labour) and does not discriminate on the grounds of gender, ethnicity, race, disability, age, religious belief, sexual orientation or family status. Diversity is well supported in our corporate culture.

In accordance with the Labour Law, other than employers engaged in industry of art, sport and special skill, no employer shall recruit juveniles under the age of 16; employers shall respect the willingness of an employee to enter into an employment contract and shall not force or threaten employees into work by means of violence, threat of violence or deprivation of personal freedom. Our recruitment process strictly abides by the guidelines of the Tencent Human Resources Policy. Every job applicant is asked to provide his/her education background, qualification and job experience in a recruitment questionnaire, which is reviewed by the Human Resources Department and verified by a background check agency. This allows us to hire qualified employees in accordance with job requirements and comply with prohibitions against underage and forced labour.

Compensation and Benefits

In accordance with the Labour Law and the Labour Contract Law, the wage paid to employees shall not be lower than the local standards on minimum wage. Wages shall be paid to employees on a monthly basis with valid local currency. The wages payable to employees shall not be withheld or delayed without good reason. The Labour Law requirements on compensation have been complied with where employees receive competitive pay and employee benefits.

Compensation

Competitive pay and employee benefits are offered to attract and retain talent. The remuneration and bonus systems are performance-based and designed to reward employees for high performance and growth potential.

Benefits

The basic benefits system was built and is maintained in accordance with relevant laws, regulations and market practice. In addition, certain special benefits are created to motivate employees and implement our strategy.

We were awarded by zhaopin.com as the best employer in the PRC in 2019. We have also been voted as one of the best employers in the PRC for 14 consecutive years since 2006 in a survey jointly conducted by zhaopin.com and the Institute of Social Science Survey, Peking University.



Environmental, Social and Governance Report

We care for the growth of our employees and provide benefits with a Tencent cultural theme. For example, special occasions for an employee (e.g. work anniversaries, wedding and holiday festivities) are celebrated with co-workers in the office. We strive to create work-life balance and an inviting work environment for employees. Employees have the flexibility to choose the most suitable insurance plans and benefits for themselves and their families.

Promotion

Employees may apply for promotion during their interim and year-end performance reviews, provided that they satisfy the requirements with regard to the length of service and performance. Depending on the practice area, the promotion will be reviewed and considered by the relevant internal committee. The promotion review process is impartial and open – there is a formal channel for our employees to provide and receive feedback. The promotion review is conducted in compliance with applicable laws and regulations on the fair treatment of employees.

Employee Departure

In accordance with the Labour Law and Labour Contract Law, the employment contracts we enter into with our employees include the term of employment and the conditions for termination of employment. We have strictly complied with the aforesaid requirements and have entered into employment contracts with all employees detailing duration of the employment and the grounds for termination of the employment.

We value our relationship with our employees and handle employee departure (whether by resignation or dismissal) strictly in accordance with applicable laws and regulations. We arrange an exit interview with each of the departing employees to understand the reasons for his/her departure and welcome any suggestions for improvement.

Work-Life Balance

In accordance with the Labour Law and Labour Contract Law, the Group shall comply with the regulations on working hours, work breaks and vacation days and include such terms in the employment contract. We have implemented vacation day schedules and initiatives such as flexi-time arrangements and volunteer service days off to help employees strike a good work-life balance. The leave scheme allows employees to enjoy annual leave, fully-paid sick leave, half-paid leave of absence and fully-paid special Chinese New Year leave which are above the statutory standard. Also, female employees are entitled to take fully-paid maternity leave, while male employees are also entitled to take fully-paid paternity leave. Employees can also apply for one day of fully-paid volunteer service leave per year. These labour policies all comply with the requirements under the Labour Law and Labour Contract Law.

We also organise a wide variety of recreational and leisure activities (e.g. running, photography, music, dance, language classes) for employees. We have provided various recreational and leisure facilities in our Shenzhen headquarters, such as a 300-metre running track, indoor rock-climbing wall, table tennis tables, pool tables, a badminton court, a full-sized basketball court, etc.



Environmental, Social and Governance Report

Occupational Health and Safety

In accordance with the Labour Law, we employ a labour safety and hygiene policy. The policy aims to prevent accidents in the workplace and reduce occupational hazards. In accordance with the *Social Insurance Law of the People's Republic of China* promulgated on 28 October 2010 and amended on 29 December 2018, we pay the full allowance for social insurance to its employees. The social insurance includes endowment insurance, medical insurance, work injury insurance, unemployment insurance and maternity leave insurance.

We strive to provide a safe and comfortable work environment for our employees. There are established security and fire safety systems as well as food safety monitoring systems.

We have appointed a team to monitor the physical and mental health of employees. We arrange annual medical check-ups for employees and organise health seminars, fitness sessions, on-site medical consultations as well as face-to-face and telephone counselling from time to time.

Our contribution to social insurance in the PRC is in compliance with applicable laws and regulations and we offer various supplemental insurance benefits to employees and their families (including medical insurance, critical illness insurance, accident insurance and life insurance).

In the face of the recent outbreak of the novel coronavirus (COVID-19), we implemented measures to protect the health and safety of our employees, and provided employees with protective masks and issued guidelines on how to protect themselves against the novel coronavirus.

Throughout 2019, we have complied with the relevant laws and regulations regarding occupational health and safety.

Communication

We strive to create a casual yet sophisticated communication system with customised content for our employees. There are annual rallies for employees and management, face-to-face discussion forums, featured magazines and social media platforms. The corporate strategy and culture are communicated and reinforced through these products and communication channels.



COMMUNITY

Community Investment

We set up the Tencent Charity Foundation (the “Tencent Foundation”) on 26 June 2007. It is a non-public fundraising foundation incorporated in the PRC and a separate legal entity. We commit to donating certain portion of our profits to the Tencent Foundation every year for the purpose of supporting charitable works. As of 31 December 2019, our Group and our employees donated approximately RMB4.3 billion and RMB69 million in total to the Tencent Foundation respectively since its establishment. During the year 2019, our Group and our employees donated RMB850 million and RMB1.5 million to the Tencent Foundation respectively.

The Tencent Foundation believes that everyone can participate in charity work anytime and anywhere through technology. In June 2007, the Tencent Foundation leveraged on our Internet technical capabilities and online platforms to build the first online public fundraising platform. It is designed, developed and operated by the Tencent Foundation while we provide server, broadband and other technical support for free. The platform is open for eligible charitable organisations free of charge. It allows charitable works to be performed more conveniently, smoothly and transparently. As of 31 December 2019, there had been over 10,000 active charitable organisations and over 75,000 charity projects in different locations with different focuses.

The Tencent Foundation has also applied technology to various charitable initiatives such as WeCounty for rural development and Tencent Three-dimensional Disaster Relief Programme in response to recent natural disasters in China via the online platform. In 2019, the total number of donations made by the Internet users was approximately 98.2 million and the total amount of the funds raised was about RMB2.787 billion.

The highlight of the Tencent Foundation’s charity efforts is the annual “99 Giving Day” campaign where it matches the donations made by the Internet users between 7 September and 9 September via its online platform. In 2019, the Tencent Foundation donated RMB400 million for the campaign, of which 34.6% was for education initiatives, 33.1% for medical care, 29.1% for poverty relief, and the remaining 3.2% was for environmental protection initiatives and others.

In addition to promoting philanthropy through the online charity platform, the Tencent Foundation makes direct donation in the following areas: (i) supporting technological development in impoverished areas; (ii) rural development; (iii) education; (iv) ecological conservation and cultural preservation; (v) community development; and (vi) poverty relief.

After the outbreak of COVID-19, Tencent established a RMB1.5 billion emergency fund to offer resources, technology and relief support for combatting the disease. Our charity platform helped raise nearly RMB600 million in donations from over 10 million concerned Internet users in an effort to support philanthropy institutions nationwide who are helping the fight against COVID-19. We gathered factual COVID-19 news information and posted to our high-traffic platforms, such as Weixin and Tencent News, to quickly guide people to official news about the virus which resulted in over 600 million page views. Guests that sign-in to any of the platforms can check the number of confirmed cases of the virus, locate the nearest clinics for testing or seek designated hospitals for urgent medical care.



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In helping the battle against COVID-19, we help a concerned public stay up to date with the latest news information by working closely with the World Health Organization to distribute their official data across the Tencent social and news platforms. We also made efforts to dispel misleading COVID-19 rumours using our news fact-checking platform Jiaozhen (translated “to correct” in Chinese).

We also launched free online consultation to allow access to over 10,000 doctors from our medical care partners, such as WeDoctor and DoctorWork. Tencent Medipedia provides verified medical information for over 10,000 diseases. Tencent Health, our one-stop portal for online medical services on the Weixin platform has delivered real-time COVID-19 data and information to over 300 million Weixin users, while also offering additional online consultation. During the outbreak, we launched AI-powered tools to enable users to self-diagnose their symptoms using an AI automated response system supplemented with medical AI imaging. These tools were also part of a smart solution package offered to assist 40 medical institutions with providing medical care to persons possibly exposed to COVID-19. We also designed the Tencent Health Code, which helps organise the collection of health information from population groups. Tracking population health information helps reduce infection spread and allow healthy persons to make necessary travel to buy necessities. Tencent Cloud provided development assistance to create healthcare Mini Programs such as Guangzhou’s “Sui Kang” mini program. This mini program provides Guangzhou citizens with official information about COVID-19 and healthcare services that are available. The program also allowed Guangzhou residents to make reservations to purchase protective face masks. Tencent Cloud is also providing medical researchers with access to its supercomputer facility to help the world more quickly find a cure for COVID-19.

We upgraded Tencent Meeting to allow employees and students to work and study more efficiently while staying at home. Tencent Meeting now handles up to 300 simultaneous participants in a video conference. This service is offered to the public free of charge to manage the challenges brought on by COVID-19. We also created education tools in cooperation with education partners to offer distance learning services. Distance learning enables students to continue studies while at home while minimising the spread of infection to an at-risk age group. The distance learning system includes live streaming virtual classrooms, online tutoring and a virtual classroom manager for teachers. This virtual classroom ecosystem is being offered from Tencent smart education solutions and currently hosted on the Tencent social platforms, Weixin and QQ.

Supporting technological development

In order to encourage younger generations to apply themselves to scientific exploration, the Tencent Foundation initiated the Xplorer Prize. The prize targets basic science and cutting-edge technology areas. Eligible candidates for the prize are younger scientific and technological workers below the age of 45 who work full-time in Mainland China. In 2019, a total of RMB37.5 million was granted to the first batch of 50 Chinese young scientific and technological talents. By setting this prize, our aim is to help the most gifted young scientific and technological talents to climb the scientific peak.



Environmental, Social and Governance Report

Rural development

In 2015, WeCounty, our open platform built on the “Internet + Village” model, was launched to offer villagers access to digital technology which would benefit their communities. As of 31 December 2019, 29 provincial administrative areas with approximately 15,000 villages (or communities) joined WeCounty platform. The number of verified villagers was over 2.5 million as of 31 December 2019. In 2019, WeCounty provided free platform services to 116,000 revolutionary old districts and frontier ethnic regions, 124,000 filed poverty-stricken villages, and 16,455 administrative villages under the jurisdiction of 14 cities in northeast and northwest of Guangdong.

Education

The Tencent Foundation has set up scholarships to promote education in the PRC and other countries throughout the years. There are also specific donations for different education initiatives. In 2019, the Tencent Foundation donated approximately RMB86.13 million in education-related projects. For example, it cooperated with the funds set up by universities (including Peking University, Zhongnan University of Economics and Law and Shenzhen University) on higher education and with Enshi Prefecture Charity Federation and other institutions on left-behind children’s education. It also sponsored projects led by Beijing Hefeng Art Foundation in relation to online art education.

Ecological conservation and cultural preservation

The Tencent Foundation is keen on environmental protection and cultural preservation. In 2019, the Tencent Foundation donated approximately RMB6.05 million to the China Foundation for Cultural Heritage Conservation, the Paradise International Foundation and other ecological conservation organisations to continue to preserve and repair the Great Wall and for the ecological conservation project in the PRC.

Community development

In 2019, the Tencent Foundation donated RMB9.67 million for the development of social organisations to promote philanthropy and innovation in charity work, and donated RMB100 million through “99 Giving Day” to support the development of various public welfare institutions.

Poverty relief

In 2019, the Tencent Foundation donated approximately RMB116 million to support poverty relief initiatives through various charitable organisations, in addition to the matching donation made by the Tencent Foundation on the “99 Giving Day” for the same initiatives.



Environmental, Social and Governance Report

Volunteering

In 2006, some of our employees founded the Tencent Volunteers' Association at their own initiative. Since then, the Tencent Volunteers' Association has contributed more than 130,000 hours of voluntary services and the total number of participants is more than 63,000. There are more than 20 sub-divisions at the city level (such as Beijing, Shanghai, Chengdu, Shenzhen, Wuhan, Guangzhou and Hefei) and at the business group level (such as Cloud & Smart Industries Group, Technology Engineering Group and Interactive Entertainment Group).

Over the last decade, the Tencent Volunteer's Association has been involved and contributed in the areas of online charity, promotion of unhindered Internet access, information technology popularisation, cybersecurity, emergency support, poverty relief, scholarship, environmental protection, care for elderly and children with special needs and animal protection. It has launched more than 200 volunteering activities. In 2016, it was awarded a spot in the list of Top 10 Best Volunteer Organisations in Guangdong Province.

The Tencent Volunteers' Association combines its expertise in technology to help the community. For example, it has been broadcasting information on missing persons via Weixin/WeChat and QQ and with the latest facial recognition and blockchain technologies, the number of successful cases increased year by year.

The Tencent Volunteers' Association also established the China IT-Philanthropy Union which promotes the "Internet + Charity" model by holding summits and publishing white papers on the successful examples of how the information technology has changed the landscape of charity work.

In order to encourage employees to participate in volunteer service, employees, since April 2012, have been granted one day of fully-paid volunteer service leave per year.

Anti-Corruption

According to the *Law Against Unfair Competition in the People's Republic of China*, business operators shall not use monies, assets or other means to bribe an entity or individuals to promote transaction opportunities or competitive advantage. According to the *Criminal Law of the People's Republic of China*, corruption and bribery may constitute a serious criminal offence. We strictly comply with applicable laws and regulations for anti-corruption and embrace the value of integrity, being proactive, cooperation and creativity. To promote integrity, we have developed robust systems and measures to detect and deter corruption, bribery or any other fraudulent activities. Internal audit is conducted with risk management and risk control to ensure the Group's compliance with ethical standards which we strive to uphold.



Environmental, Social and Governance Report

Risk Management and Internal Control Policy

In 2016, we updated the Risk Management and Internal Control Policy (the “Policy”) with a system comprising three lines of defence. The first line is business and functional departments. The risk management and internal control departments serve as the second line while the internal audit department and anti-fraud investigation department act as the third line of defence. The Policy sets out the roles and responsibilities of different stakeholders in risk management and control (including those in relation to frauds). It is emphasised in the Policy that the management of each business group is primarily responsible for the risk management and internal controls of its department. If any fraudulent activity is detected, the management of the relevant department shall improve the control procedures promptly to prevent recurrence of similar incidents. The risk management and internal control departments have dedicated a team to each business group to provide internal control and risk management support. We also apply continuous auditing to key businesses in order to detect irregularities and identify risks in a timely and systematic manner and to improve the effectiveness of fraud risk management and control.

Tencent Sunshine Code of Conduct

All employees of the entire Group are required to follow and to strictly comply with the Tencent Sunshine Code of Conduct (the “Sunshine Code”). It expressly prohibits all kinds of fraudulent activities, bribery, embezzlement, misappropriation, extortion, falsification of information and any other activities which are not in compliance with applicable laws and regulations. The Sunshine Code shall be reviewed annually against the changing needs of the Group and revised when appropriate, in order to ensure that it caters for our business development, reflects the positions under applicable laws and regulations and captures all kinds of fraudulent activities. In 2019, we have revised the Sunshine Code to include more specific stipulations in relation to each category of fraudulent activities so that our employees can understand better our expectations under the Sunshine Code. The revised Sunshine Code strengthens the management of bidding behaviours and the tender process and information security. In terms of bidding behaviours, the Sunshine Code clarifies the definition and punishments of illegal behaviours including colluding bidding, circumventive bidding, defrauding bidding, etc., and further standardises the company’s bidding and tendering projects in accordance with laws and regulations governing the bidding procedure. The goal is to protect the legitimate rights and interests of partners and suppliers who fairly participate in the Company’s bidding and tendering projects.

In 2019, we published for the first time on our WeChat official account “Sunshine Tencent” information regarding the Company’s investigation and handling of illegal and criminal cases, including serious duty-related violations such as bribery and misappropriation occurring in the first three quarters of 2019. According to the report, all violations discovered have been effectively controlled and reported to the government authorities according to the law. These actions demonstrate clearly our determination to combat corruption and fraudulent acts. By increasing deterrence to committing white collar crimes, our method is not only beneficial to the long-term development of Tencent, but also conducive to building an upright and honest environment within the Company and the industry.



Environmental, Social and Governance Report

Anti-fraud and Whistleblowing Policy

We have published an anti-fraud and whistleblowing policy (the “Whistleblowing Policy”), which clearly conveys the message of zero tolerance in relation to fraudulent activity to all the employees and suppliers/business partners. All employees and suppliers/business partners are encouraged to report genuine concerns about any existing or potentially fraudulent activities and non-compliance. The Whistleblowing Policy expressly outlines the multiple whistleblowing channels, how the Group should deal with such concerns and the whistle-blower protection system, so that employees and suppliers/business partners can report their good faith concerns without fear of reprisal or potential retaliation. Since 2016, we have maintained an Official Account under the name of “Sunshine Tencent” on WeChat to promote our anti-fraud policy and whistleblowing channels with a function to allow our business partners to report directly to us.

Fraud Detection and Corruption Prevention

When a report of suspected fraudulent activities is received, the anti-fraud investigation department, which consists of professionals who used to be part of the anti-corruption function at a governmental authority or private enterprise and have profound knowledge in fraud risk management and solid fraud investigation experiences, is assigned to handle the investigation independently. After an investigation has been completed, the employee found and proven to have committed such fraud shall be subject to immediate dismissal. At the same time, the department in question must, with the assistance of the risk management and internal control departments, take corrective actions in response to the business risk or loophole identified during the investigation. If we find any supplier or business partner engaging in corruption or any other fraudulent activities, we will terminate the contracts with them immediately. In the event that any fraudulent activity violates any relevant laws or regulations, such cases shall be reported to government authorities in accordance with applicable laws and regulations. In order to convey a message regarding our determination to fight against fraud and to introduce our whistleblowing system externally, we send a letter to our suppliers and business partners and request them to complete a questionnaire annually. The questionnaire sets out our corporate values, the Whistleblowing Policy and the various reporting channels. We will understand from each of our suppliers and our business partners whether our employees have requested for any gift, cash or benefit during the course of business and whether it has been treated unfairly. Upon receipt of the feedback, we will ensure that the questions or concerns raised by our suppliers and our business partners will be addressed promptly. If necessary, the anti-fraud investigation department will commence an investigation formally.

Our risk management and internal control departments have established a procurement management control unit to optimise the Group’s supplier management system. A new supplier synergy system has been launched for the online management of the entire procurement life cycle, from sourcing, selection and onboarding of suppliers, performance assessment to retiring suppliers. The system serves as an open platform where the suppliers can provide its corporate information to us and we can manage the entire bidding process online. Through a centralised system, the bidding process can be standardised and become more transparent. The supplier management system also provides the suppliers with a communication channel so that we can collect their feedback or complaints. Complaints in relation to fraudulent activities will be passed to the anti-fraud investigation department directly for follow-up and those non-fraud related complaints (such as unfair treatment) will be handled by the procurement risk management unit. The goal is to ensure that the complaints and concerns of our suppliers can be addressed promptly, and the risk of fraud can be minimised.



Anti-Money Laundering and Sanctions

The Group strictly abides by applicable laws and regulations in relation to cross-border and domestic money transmission, anti-money laundering (“AML”), counter-terrorist financing (“CTF”), as well as anti-tax evasion in the PRC and other countries where we provide payment processing services. Specifically, according to the *Anti-Money Laundering Law of the People’s Republic of China* implemented on 1 January 2007 and the *Administrative Measures for Non-financial Institutions Providing Payment Services* implemented on 1 September 2010, we must formulate AML measures, fulfil AML obligations, and comply with relevant AML regulations if we intend to provide users with third-party payment services. The Group is compliant with not only its legal obligations but also the expected social responsibilities.

As a result of the complexity of legal and regulatory compliance in multiple jurisdictions, we have established an independent AML and sanctions compliance department. The duty of the department is to coordinate the management of money laundering and sanctions risk at the Group level for all businesses, to fulfil AML and sanctions requirements under relevant laws and regulations, and to manage and promote the implementation of various AML and sanctions initiatives.

In 2019, we have launched a Group-wide Anti-Money Laundering and Sanctions Programme (the “AML Programme”) which focuses on putting in place the most effective standards to combat financial crime. The aim of the AML Programme is to significantly increase our compliance capabilities and to have in place a set of consistent high standards across our Group businesses.

Key aspects of the AML Programme include but are not limited to the followings:

- Formulating specialised AML and Sanctions units at Group level;
- Establishing a set of Group minimum standards in AML and Sanctions compliance;
- Conducting regular independent testing on our AML and Sanctions systems and operational effectiveness; and
- Developing new methodologies in assessing customer risks to help us better detect and deter financial crime risks.

In addition, the Group continues to dedicate resources to the AML Programme in the following key areas: (i) carrying out on-the-job and professional training for our staff periodically; (ii) ongoing monitoring of and further enhancements to our system infrastructure to improve the effectiveness and efficiency of our KYC, transaction monitoring, and suspicious transaction reporting processes; (iii) regular review and further strengthening the implementation of our AML and Sanctions systems and policies; and (iv) active participation in international AML/CTF events to exchange industry best practices.



Environmental, Social and Governance Report

SUPPLY CHAIN MANAGEMENT

Our supply chain management programme attaches supreme importance to managing the ethics risk associated with the relationship between our procurement employees and our business partners. It also focuses on teaching those employees who are involved in procurement to recognise and mitigate the inherent risks.

To enhance the social responsibility awareness of our employees, we have formulated a code of conduct which those employees engaging in procurement activities must adhere to. To minimise the ethics risks, such employees are also required to declare any relationship they may have with our suppliers in writing.

In the course of supplier engagement, potential suppliers are required to conduct self-assessment on their commitment, amongst other things, to environmental protection, social responsibility, and health and safety at work (the “Self-Assessment”).

Suppliers which are formally engaged by us are also required to agree to the terms of a declaration and undertaking in relation to anti-commercial bribery in doing business with our Group (the “Anti-commercial Bribery Declaration”).

During the year ended 31 December 2019, all suppliers which were formally engaged had completed the Self-Assessment and signed the Anti-commercial Bribery Declaration. We were not aware of any commercial bribery engaged by our suppliers.

The procurement department looks for qualified suppliers in the market and conducts standard or simplified verification on the suppliers depending on the duration of the cooperation, the order volume and the nature of the request. We have maintained a database of qualified suppliers which are ready to take orders from us.

We have an internal policy which sets out the procedures for supplier onboarding. Before engaging a supplier, we will conduct the background check (including site visit) on the supplier. Staff participating in the check include members from the procurement department, the requesting department, the technology department (if applicable) and the risk management department. The assessment results will be reported to the procurement department for a final determination.

We normally ask for price quotations from at least three vendors. Other factors including delivery time and technical capabilities of the vendors will be taken into consideration when selecting vendors. If there is only one vendor available for selection as it dominates the relevant market or it is the only vendor with access to the required goods/services, the exclusive procurement arrangement with such vendor will require special approval with a satisfactory justification provided by the technology department or the requesting department.

We evaluate the performance of our suppliers from time to time and take appropriate steps to address any issues with the quality of the suppliers as part of our supply chain management. For suppliers with unsatisfactory performance, subject to applicable contractual arrangements, we may (i) discuss with them on the remedial steps to be taken by them; (ii) suspend the cooperation; (iii) reduce the order volume; (iv) impose penalties; or (v) suspend payment. The procurement department may disqualify a supplier for the following events: (i) we suffer from material economic losses as a result of the delayed delivery, quality issue or breach of contract by the supplier; (ii) the supplier has received the lowest rating in the rating scale for two consecutive quarters; and (iii) the supplier is in serious breach of business ethics.



PRODUCT RESPONSIBILITY

We strive to provide the best user experience and pay high attention to the quality of our products and services. We conduct strict reviews of our product and service offerings and related sales, marketing and advertising strategies and materials to ensure their compliance with applicable laws and regulations. We also build in safeguards on advertising content, user privacy, product safety and IP rights as described below.

Advertising Content

According to the *Advertising Law of the People's Republic of China* (the "Advertising Law") and the Interim Measures for Administration of Internet Advertising, advertising operators and advertising publishers shall verify all relevant business documents pursuant to laws and administrative regulations, and verify the compliance of its advertising contents. Advertisement clients who publish on the Tencent advertisement platforms are required to certify the legality of the advertising content. We will verify the clients' advertisement content against guidance from relevant laws and regulations, such as the Advertising Law. Throughout the year of 2019, the Group has complied with the Advertising Law and relevant laws and regulations regarding advertisement.

Data Safety and User Privacy

In accordance with the *Cybersecurity Law of the People's Republic of China* promulgated on 1 June 2017 and *Provisions on Protecting the Personal Information of Telecommunications and Internet Users* promulgated on 16 July 2013 and implemented on 1 September 2013, as an Internet Information Service Provider, we obtain user's consent before collecting and using user's personal information. We stipulate rules on the collection and use of user's personal information and publicise the same in the places and websites where we operate or serve. We and our employees keep strictly confidential the personal information of users collected and used during the provision of service, and do not disclose, distort, damage, sell or provide the same to others in violation of the law. We keep strictly confidential the user information collected by us and establish and perfect the user information protection system to ensure that the personal information collected by us is safe and to prevent any disclosure, damage or loss of the information.

To uphold our dedication to value creation for our users, amongst other user specific aims, one of our important missions is to protect the privacy of user data and other sensitive information. The Group complies with all applicable laws on privacy protection and incorporate applicable legal and regulatory requirements on privacy protection into our internal compliance policies taking into account the specific features of our products and services. We have also devised specific procedures to collect and process user data to ensure that our products and services are in compliance with applicable legal requirements.

We have a dedicated privacy team within the Legal Department which is responsible for handling data protection matters. We evaluate specific products from the perspective of privacy protection on a regular basis and perform privacy risk assessments before the launch of new products to ensure that our products are not exposed to the risk of privacy infringement or leakage of user data.

We provide training to our employees to enhance their privacy protection awareness and build up the cultural awareness of the importance of privacy protection.



Environmental, Social and Governance Report

To ensure that our users understand how we protect their personal information and enhance the transparency of how we collect and process the data, we promote the concept of “Technology is deployed for social good and data is put in manageable use”. We have published the Tencent Privacy Protection Whitepaper and launched the Tencent Privacy Protection Platform (<https://privacy.qq.com>) to give our users a comprehensive understanding of the privacy protection measures taken by the Group. We also make our privacy protection policies available on our product websites and in-app products and provide communication channels for our users to file complaints and raise enquiries whenever they are in doubt.

The privacy policies of our various applications have been considered top-ranked in the joint review by the Cyberspace Administration of China, the Ministry of Industry and Information Technology of the PRC, the Ministry of Public Security of the PRC and the Standardisation Administration of the PRC and in the review by China Consumers Association among 100 selected applications. Furthermore, we actively participate in shaping the development of the industry framework on privacy protection. For example, our privacy experts are members of the International Association of Privacy Professionals. Many of our products have been accredited with privacy certifications from TrustArc. Our network and data security managements have been certified by the International Organization for Standardization (ISO).

In 2019, we protected millions of devices by monitoring nearly 100 billion lines of code daily and diverting away nearly 10 billion malicious attack requests in a year. We put together a 400G anti-DDoS protection platform with a maximum protection peak of 1.23 Tbps, a top tier system ranking first in the industry. In addition, we add protection by employing thousands of top security experts all over the world, publishing threat intelligence, and continually looking for ways to improve its network security ecosystem. Tencent sets a new network security precedent with establishing its open source security emergency response centre, where open source security features are made available to the entire industry. Open source security features have current downloads in the thousands and counting.

In 2019, Weixin platforms produced a total of 17,881 articles to dispel hurtful rumours on the Internet. These articles were read over 114 million times. With the mission of “Value for Users, Tech for Good”, the Tencent news fact-checking platform created a database for verifying and confirming facts to combat the spread of misinformation on the Internet. Information presently stored in the database cover knowledge in fields such as food safety, nutrition and medical care.

Customer Service

In accordance with *Law of the People’s Republic of China on the Protection of Consumer Rights and Interests* promulgated on 31 October 1993 and amended on 25 October 2013, when we provide our customers with goods or service, we adhere to social morality, operate business in good faith, and protect the legitimate rights and interests of consumers. We also seek consumers’ opinions on commodities or services provided to them and accept consumers’ supervision. In accordance with the *E-commerce Law of the People’s Republic of China*, effective on 1 January 2019, we, as an e-commerce business operator, have established an accessible and effective mechanism for receiving complaints and abuse reports, publishing of information on complaints and abuse reporting methods, prompt handling and resolution for complaints and abuse reports. The Company puts great importance on customer service, thus it proactively complies with all relevant laws and regulations regarding customer service.



Environmental, Social and Governance Report

The Tencent Customer Service Centre consists of more than 3,000 staff members and is responsible for handling complaints and responding to enquiries from customers for our businesses. We commit to providing solutions to our customers in a timely manner through different means including customer service hotline, online customer support, intelligent customer service, Weixin/WeChat and face-to-face meeting.

We have established the following management system to handle complaints from our customers effectively:

1. There is a designated team within the customer service department to handle complaints and deal with compensation requests. The team is responsible for conducting investigation based on the information provided by the complainant, explaining the relevant procedures to the complainant and notifying the complainant of the investigation results with the aim of providing him with a satisfactory solution.
2. For better user experience, we have established a set of complaint handling procedures which set out clearly the responsibilities within the customer service department and the timeframe within which a complaint needs to be resolved.
3. We have strengthened our system infrastructure which allows classification of complaints by urgency and risk level so that the customer service staff can better prioritise the cases and deal with the complaints in a timely manner.
4. We have a designated team of staff who is responsible for handling complaints from customers who visit our offices and for better risk control, we have designed a set of protocols for different types of incidents.
5. Tencent customer service also performs social responsibilities and promotes the aim of “Tech for Good” by establishing Tencent110 (110.qq.com), a platform for reporting illegal issues and accepting reports from Internet users and timely handle illegal accounts on Tencent Platform. It helps with the crackdown of illegal industry chain on the Internet and provides analyses of fraud prevention methods so as to protect more users from fraud.



Environmental, Social and Governance Report

Healthy Environment for our Users

One of our important businesses is our online gaming business. We need to comply with the relevant laws, regulations and policy requirements in relation to online gaming in the PRC, including the *Telecommunication Regulation of the People's Republic of China*, the *Administrative Regulations on Publishing*, the *Administrative Measures on Internet Information Services* and the *Provisions on the Administration of Online Publishing Services*. In accordance with such regulations, when we operate value-added telecommunications business, we are required to apply to administrative authorities of information industries to obtain a Value-Added Telecommunication Business Operation Permit. When we operate online publishing service for online gaming, we must comply by obtaining an Online Publishing Service License.

We have been actively implementing various measures to ensure compliance with the relevant laws, regulations and policies. For instance, we have already obtained the relevant credentials for publishing and operating online games, such as the Value-Added Telecommunication Business Operation Permit and the Online Publishing Service License. Meanwhile, in our business operation, we are among the first beginners to actively explore into the field of juveniles' protection.

To safeguard the physical and mental health of online game users and juveniles, we have implemented the real name system and anti-addiction system in accordance with the regulatory requirements of the PRC and strengthened the promotion of healthy gaming and anti-addiction through various channels. In February 2017, we launched a series of services on "Tencent Guardian Platform" which assist parents to monitor the gaming habits of their underage children. This is the technical platform aiming to provide assistance to guardian who wish to help their underage children to develop healthy gaming practice in the online game industry. In July 2017, we implemented the Healthy Gameplay System on Honour of Kings, which sends reminders to players or forces them to suspend the game if players spend too much time on the game in one day. In 2018, we upgraded the Healthy Gameplay System, tightened the requirements for identity verification and made the system available for more games. We also launched a customer service which sends reminders when a game player may have engaged in overspending and provides subsequent counselling. In 2019, the Healthy Gameplay System covered all mobile games operated by us in Mainland China.

In addition, the General Administration of Press and Publication of the People's Republic of China has promulgated the *Circular on Prevention of Underage Children's Addiction to Online Gaming* on 25 October 2019 (the "Anti-Addiction Circular"), which has regulated underage children's use of online gaming in many aspects, such as game duration, playing period and paymanet service. It also requires that parents, schools and other society members to undertake the responsibility to protect underage children. We have been fully implementing the requirements in accordance with the Anti-Addiction Circular after we had conducted pilot work on four online games in January 2020.



Monitoring of and Protection for Original User-generated Content

Each of Weixin/WeChat and QQ provides a mechanism for users to report any fake or inappropriate content circulated on its platform. To protect the original user-generated content, Weixin/WeChat has launched a new feature in December 2017 for the Weixin/WeChat official account holders to declare the originality of the content generated by them on Weixin/WeChat so as to help identify and deter copyright infringement more effectively.

Intellectual Property Rights

China has launched a series of laws and regulations regarding protection of intellectual property (“IP”) rights. The *Trademark Law of the People’s Republic of China* last amended on 23 April 2019, the *Patent Law of the People’s Republic of China* last amended on 27 December 2008, the *Copyright Law of the People’s Republic of China* last amended on 26 February 2010 and the *Implementation Rules for Domain Name Registration with China Internet Network Information Centre* last amended on 29 May 2012 specify rules on the ownership, protection period, registration method and legal responsibility of trademark, patent, copyright and domain names. We are a technology-oriented company and we stress the importance of the observation and protection of IP rights. We have established a dedicated IP team with approximately 80 employees as of 31 December 2019 that is responsible for day-to-day management of legal matters involving trademark, patent, copyright, domain names and other IP rights.

We began a comprehensive programme for the management of IP at an early stage. We have consistently applied for the registration of IP rights since the early stages of its establishment. With the successful development of our business, we have expanded our global IP portfolio to cover more than 100 countries and regions. As of 31 December 2019, we had obtained over 25,000 officially registered trademarks and over 12,000 issued patents. Coupled with our creation of a vast amount of copyrighted content, we have accumulated IP assets of considerable value. Our IP team has developed a comprehensive database for our patents, trademarks and copyrights and our strong data analytical skills enable us to manage and monitor our IP rights in a meticulous and efficient manner. To combat infringement of IP rights, our IP team has also established a comprehensive and efficient monitoring and maintenance system, and has devised various civil, criminal and administrative enforcement measures to protect our IP rights. Please see further details on the Company Website (<https://www.tencent.com/legal/html/en-us/property.html>).

We actively participate in public affairs and strive to promote the awareness of IP protection in the Internet industry. As members of the China National Information Technology Standardisation Committee, the China Intellectual Property Society, the Patent Protection Association of China, the World Wide Web Consortium, the International Trademark Association and the China Trademark Association, we have participated in the consultations on legislative amendments to the PRC laws and regulations relating to patents, trademarks and anti-competition and have made recommendations in the development of industry standards.



Environmental, Social and Governance Report

Within the past decade, we had been awarded the “China Patent Gold Awards” by the State Intellectual Property Office of the PRC, the “China Trademark Gold Awards” jointly by World Intellectual Property Organisation and the State Administration for Market Regulation and the “China Copyright Gold Awards” by the National Copyright Administration of the PRC and the World Intellectual Property Organisation multiple times, signifying our contribution to the development of independent innovation of the PRC. We have also been recognised as a “National Copyright Demonstration Unit” several times, demonstrating our outstanding performance in management and protection of copyright. The Company has actively participated in the development of the standard patent issues in recent years. Particularly, we made certain contributions in the aspect of standardisation of blockchain electronic invoice.

Looking forward, we will continue to devote great efforts and resources to observe and protect IP rights.



TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 136 to 264, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.



Independent Auditor's Report

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/ items
- Impairment assessments of goodwill, investments in associates and joint ventures
- Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities



Key Audit Matter

Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/items

Refer to Note 2.30(a), 4(a) and 5(b) to the consolidated financial statements

The Group has recognised revenue from sales of virtual products/items to the users in respect of value-added services rendered on the Group's online platforms. The relevant revenue is recognised over the lifespans of respective virtual products/items which was determined by the management, on an item by item basis, with reference to the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items, depending on the terms of the virtual products/items.

During the year ended 31 December 2019, a majority of the Group's revenue from value-added services was contributed from online games and was predominately derived from the sales of virtual products/items.

We focused on this area due to the fact that management applied significant judgments in determining the expected users' relationship periods for certain virtual products/items. These judgments included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn rates and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected users' relationship periods.

How our audit addressed the Key Audit Matter

We discussed with management and evaluated their judgments on key assumptions in determining the estimated lifespans of the virtual products/items that were based on the expected users' relationship periods.

We tested, on a sample basis, key controls in respect of the recognition of revenue from sales of virtual products/items, including management's review and approval of (i) determination of the estimated lifespans of new virtual products/items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual products/items based on periodic reassessment on any indications triggering such changes. We also assessed the data generated from the Group's information system supporting the management's review, including tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected virtual products/items generated directly from the Group's information system.

We assessed, on a sample basis, the expected users' relationship periods adopted by management by testing the data integrity of historical users' consumption patterns and calculation of the churn rates. We also evaluated the consideration made by management in determining the underlying assumptions for expected users' relationship periods with reference to historical operating and marketing data of the relevant games. We also assessed, on a sample basis, the historical accuracy of the management's estimation process by comparing the actual users' relationship periods for the year against the original estimation for selected virtual products/items.

We found that the results of our procedures performed to be materially consistent with management's supporting documentation.



Independent Auditor's Report

Key Audit Matter

Impairment assessments of goodwill, investments in associates and joint ventures

Refer to Notes 2.13(a), 2.15, 4(b), 20, 21 and 22 to the consolidated financial statements

As at 31 December 2019, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB93,456 million, RMB213,614 million and RMB8,280 million, respectively. Impairment of RMB20 million and RMB3,877 million had been provided for against the carrying amounts of goodwill and investments in associates, respectively, and a reversal of impairment of RMB54 million had been made against the carrying amounts of investments in joint ventures during the year ended 31 December 2019.

We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgments were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.

How our audit addressed the Key Audit Matter

We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information.

We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions.

Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that contain goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found them to be appropriate.

In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using discounted cash flows, we assessed the key assumptions adopted including revenue growth rates, profit margins, discount rates and other assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.



Independent Auditor's Report

Key Audit Matter

Impairment assessments of goodwill, investments in associates and joint ventures (continued)

How our audit addressed the Key Audit Matter

In respect of the impairment assessments of cash generating units that contain goodwill, investments in associates and investments in joint ventures using market approach, we assessed the valuation assumptions including the selection of comparable companies, recent market transactions, and liquidity discount for lack of marketability, etc. We assessed these key assumptions adopted by management with the involvement of our internal valuation experts based on our industry knowledge and independent research performed by us. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.

We independently tested, on a sample basis, the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment charges. We did not identify any material exceptions from our testing.



Independent Auditor's Report

Key Audit Matter

Fair value measurement of financial instruments, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities

Refer to Notes 3.3, 4(c), 24, 25, 38 to the consolidated financial statements

As at 31 December 2019, the Group's financial assets and financial liabilities which were carried at fair value comprised financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and other financial liabilities of approximately RMB135,936 million, RMB81,721 million and RMB2,396 million, respectively, of which approximately RMB123,093 million of these financial assets and approximately RMB1,873 million of these financial liabilities were measured based on significant unobservable inputs and classified as "Level 3 financial instruments".

We focused on this area due to the high degree of judgment required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.

How our audit addressed the Key Audit Matter

In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions.

We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2019 by evaluating the underlying assumptions and inputs including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.



OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Independent Auditor's Report

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tong Yu Keung.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 March 2020



Consolidated Income Statement

For the year ended 31 December 2019

| | | Year ended 31 December | |
|---|--------|------------------------|---------------------|
| | Note | 2019 RMB'Million | 2018 RMB'Million |
| Revenues | | | |
| Value-added Services | | 199,991 | 176,646 |
| FinTech and Business Services (*) | | 101,355 | 73,138 |
| Online Advertising | | 68,377 | 58,079 |
| Others (*) | | 7,566 | 4,831 |
| | | <u>377,289</u> | <u>312,694</u> |
| Cost of revenues | 5 8 | <u>(209,756)</u> | <u>(170,574)</u> |
| Gross profit | | 167,533 | 142,120 |
| Interest income | 6 | 6,314 | 4,569 |
| Other gains, net | 7 | 19,689 | 16,714 |
| Selling and marketing expenses | 8 | (21,396) | (24,233) |
| General and administrative expenses | 8 | (53,446) | (41,522) |
| Operating profit | | 118,694 | 97,648 |
| Finance costs, net | 9 | (7,613) | (4,669) |
| Share of (loss)/profit of associates and joint ventures, net | 10 | (1,681) | 1,487 |
| Profit before income tax | | 109,400 | 94,466 |
| Income tax expense | 11 | (13,512) | (14,482) |
| Profit for the year | | 95,888 | 79,984 |
| Attributable to: | | | |
| Equity holders of the Company | | 93,310 | 78,719 |
| Non-controlling interests | | 2,578 | 1,265 |
| | | <u>95,888</u> | <u>79,984</u> |
| Earnings per share for profit attributable to equity holders of the Company (in RMB per share) | | | |
| – basic | 12(a) | <u>9.856</u> | <u>8.336</u> |
| – diluted | 12(b) | <u>9.643</u> | <u>8.228</u> |

* Due to the changes on segment presentation (Note 5), the comparative figures in the consolidated income statement have been restated to conform with the new presentation.

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

| | Year ended 31 December | |
|--|------------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Profit for the year | 95,888 | 79,984 |
| Other comprehensive income, net of tax: | | |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | |
| Share of other comprehensive income of associates and joint ventures | 125 | 23 |
| Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates | (3) | — |
| Currency translation differences | 3,089 | 4,133 |
| Other fair value (losses)/gains, net | (2,139) | 181 |
| <i>Items that will not be subsequently reclassified to profit or loss</i> | | |
| Net gains/(losses) from changes in fair value of financial assets at fair value through other comprehensive income | 23,119 | (16,391) |
| Other fair value losses | (178) | (170) |
| | 24,013 | (12,224) |
| Total comprehensive income for the year | 119,901 | 67,760 |
| Attributable to: | | |
| Equity holders of the Company | 116,670 | 66,339 |
| Non-controlling interests | 3,231 | 1,421 |
| | 119,901 | 67,760 |

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.



Consolidated Statement of Financial Position

As at 31 December 2019

| | | As at 31 December | |
|---|--------|---------------------|---------------------|
| | Note | 2019 RMB'Million | 2018 RMB'Million |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 16 | 46,824 | 35,091 |
| Land use rights | 17 | 15,609 | 7,106 |
| Right-of-use assets | 2.2,18 | 10,847 | – |
| Construction in progress | 19 | 3,935 | 4,879 |
| Investment properties | | 855 | 725 |
| Intangible assets | 20 | 128,860 | 56,650 |
| Investments in associates | 21 | 213,614 | 219,215 |
| Investments in joint ventures | 22 | 8,280 | 8,575 |
| Financial assets at fair value through profit or loss | 24 | 128,822 | 91,702 |
| Financial assets at fair value through other comprehensive income | 25 | 81,721 | 43,519 |
| Prepayments, deposits and other assets | 26 | 23,442 | 21,531 |
| Other financial assets | 27 | – | 1,693 |
| Deferred income tax assets | 28 | 18,209 | 15,755 |
| Term deposits | 29 | 19,000 | – |
| | | 700,018 | 506,441 |
| Current assets | | | |
| Inventories | | 718 | 324 |
| Accounts receivable | 30 | 35,839 | 28,427 |
| Prepayments, deposits and other assets | 26 | 27,840 | 18,493 |
| Other financial assets | 27 | 375 | 339 |
| Financial assets at fair value through profit or loss | 24 | 7,114 | 6,175 |
| Term deposits | 29 | 46,911 | 62,918 |
| Restricted cash | 31 | 2,180 | 2,590 |
| Cash and cash equivalents | 31 | 132,991 | 97,814 |
| | | 253,968 | 217,080 |
| Total assets | | 953,986 | 723,521 |



Consolidated Statement of Financial Position

As at 31 December 2019

| | | As at 31 December | |
|---|---------|---------------------|---------------------|
| | Note | 2019 RMB'Million | 2018 RMB'Million |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 32 | – | – |
| Share premium | 32 | 35,271 | 27,294 |
| Shares held for share award schemes | 32 | (4,002) | (4,173) |
| Other reserves | 33 | 16,786 | 729 |
| Retained earnings | | 384,651 | 299,660 |
| | | 432,706 | 323,510 |
| Non-controlling interests | | 56,118 | 32,697 |
| Total equity | | 488,824 | 356,207 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 35 | 104,257 | 87,437 |
| Notes payable | 36 | 83,327 | 51,298 |
| Long-term payables | 37 | 3,577 | 4,797 |
| Other financial liabilities | 38 | 5,242 | 3,306 |
| Deferred income tax liabilities | 28 | 12,841 | 10,964 |
| Lease liabilities | 2.2,18 | 8,428 | – |
| Deferred revenue | 5(c)(i) | 7,334 | 7,077 |
| | | 225,006 | 164,879 |



Consolidated Statement of Financial Position

As at 31 December 2019

| | | As at 31 December | |
|-------------------------------------|---------|---------------------|---------------------|
| | Note | 2019 RMB'Million | 2018 RMB'Million |
| Current liabilities | | | |
| Accounts payable | 39 | 80,690 | 73,735 |
| Other payables and accruals | 40 | 45,174 | 33,312 |
| Borrowings | 35 | 22,695 | 26,834 |
| Notes payable | 36 | 10,534 | 13,720 |
| Current income tax liabilities | | 9,733 | 10,210 |
| Other tax liabilities | | 1,245 | 1,049 |
| Other financial liabilities | 38 | 5,857 | 1,200 |
| Lease liabilities | 2.2,18 | 3,279 | – |
| Deferred revenue | 5(c)(i) | 60,949 | 42,375 |
| | | 240,156 | 202,435 |
| Total liabilities | | 465,162 | 367,314 |
| Total equity and liabilities | | 953,986 | 723,521 |

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 136 to 264 were approved by the Board of Directors on 18 March 2020 and were signed on its behalf:

Ma Huateng
Director

Lau Chi Ping Martin
Director



Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---------------|-------------------------------------|----------------|-------------------|-------------|---------------------------|
| | Share capital | Share premium | Shares held for share award schemes | Other reserves | Retained earnings | Total | Non-controlling interests |
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Balance at 1 January 2019 | - | 27,294 | (4,173) | 729 | 299,660 | 323,510 | 32,697 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | - | - | 93,310 | 93,310 | 2,578 |
| Other comprehensive income, net of tax: | | | | | | | |
| – share of other comprehensive income of associates and joint ventures | - | - | - | 126 | - | 126 | (1) |
| – transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates | - | - | - | (3) | - | (3) | - |
| – net gains from changes in fair value of financial assets at fair value through other comprehensive income | - | - | - | 22,601 | - | 22,601 | 518 |
| – currency translation differences | - | - | - | 2,928 | - | 2,928 | 161 |
| – other fair value losses, net | - | - | - | (2,292) | - | (2,292) | (25) |
| Total comprehensive income for the year | - | - | - | 23,360 | 93,310 | 116,670 | 3,231 |
| Transfer of gains on disposal and deemed disposal of financial assets at fair value through other comprehensive income to retained earnings | - | - | - | (720) | 720 | - | - |
| Share of other changes in net assets of associates | - | - | - | 2,322 | - | 2,322 | - |
| Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates | - | - | - | (149) | - | (149) | - |



Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Attributable to equity holders of the Company | | | | | | | Total equity RMB'Million |
|--|---|---------------------------------|--|----------------------------------|-------------------------------------|----------------------|---|-----------------------------|
| | 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 | |
| Transactions with equity holders | | | | | | | | |
| Capital injection | - | - | - | - | - | - | 273 | 273 |
| Employee share option schemes: | | | | | | | | |
| – value of employee services | - | 2,041 | - | 62 | - | 2,103 | 63 | 2,166 |
| – proceeds from shares issued | - | 272 | - | - | - | 272 | - | 272 |
| Employee share award schemes: | | | | | | | | |
| – value of employee services | - | 7,303 | - | 379 | - | 7,682 | 279 | 7,961 |
| – shares withheld for share award schemes | - | - | (1,186) | - | - | (1,186) | - | (1,186) |
| – vesting of awarded shares | - | (1,357) | 1,357 | - | - | - | - | - |
| Repurchase and cancellation of shares | - | (1,046) | - | - | - | (1,046) | - | (1,046) |
| Tax benefit from share-based payments | - | - | - | 529 | - | 529 | - | 529 |
| Profit appropriations to statutory reserves | - | - | - | 734 | (734) | - | - | - |
| Dividends (Note 15) | - | - | - | - | (8,305) | (8,305) | (365) | (8,670) |
| Non-controlling interests arising from business combinations (Note 41) | - | - | - | - | - | - | 18,386 | 18,386 |
| Disposal of a subsidiary | - | - | - | - | - | - | (1) | (1) |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | - | 276 | - | (534) | - | (258) | (844) | (1,102) |
| Dilution of interests in subsidiaries | - | - | - | (355) | - | (355) | 394 | 39 |
| Transfer of equity interests of subsidiaries to non-controlling interests | - | 488 | - | (4,849) | - | (4,361) | 3,631 | (730) |
| Recognition of financial liabilities in respect of the put option from business combination | - | - | - | (4,722) | - | (4,722) | (1,626) | (6,348) |
| Total transactions with equity holders at their capacity as equity holders for the year | <u>-</u> | <u>7,977</u> | <u>171</u> | <u>(8,756)</u> | <u>(9,039)</u> | <u>(9,647)</u> | <u>20,190</u> | <u>10,543</u> |
| Balance at 31 December 2019 | <u>-</u> | <u>35,271</u> | <u>(4,002)</u> | <u>16,786</u> | <u>384,651</u> | <u>432,706</u> | <u>56,118</u> | <u>488,824</u> |



Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Attributable to equity holders of the Company | | | | | | | Total equity |
|---|---|---------------|-------------------------------------|----------------|-------------------|-------------|---------------------------|--------------|
| | Share capital | Share premium | Shares held for share award schemes | Other reserves | Retained earnings | Total | Non-controlling interests | |
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Balance at 31 December 2017, as previously reported | – | 22,204 | (3,970) | 35,158 | 202,682 | 256,074 | 21,019 | 277,093 |
| Adjustment on adoption of IFRS 9 | – | – | – | (16,210) | 16,210 | – | – | – |
| Balance at 1 January 2018 | – | 22,204 | (3,970) | 18,948 | 218,892 | 256,074 | 21,019 | 277,093 |
| Comprehensive income | | | | | | | | |
| Profit for the year | – | – | – | – | 78,719 | 78,719 | 1,265 | 79,984 |
| Other comprehensive income, net of tax: | | | | | | | | |
| – share of other comprehensive income of associates and joint ventures | – | – | – | 23 | – | 23 | – | 23 |
| – net losses from changes in fair value of financial assets at fair value through other comprehensive income | – | – | – | (16,095) | – | (16,095) | (296) | (16,391) |
| – currency translation differences | – | – | – | 3,681 | – | 3,681 | 452 | 4,133 |
| – other fair value gains, net | – | – | – | 11 | – | 11 | – | 11 |
| Total comprehensive income for the year | – | – | – | (12,380) | 78,719 | 66,339 | 1,421 | 67,760 |
| Transfer of gains on disposal of financial assets at fair value through other comprehensive income to retained earnings | – | – | – | (9,561) | 9,561 | – | – | – |
| Share of other changes in net assets of associates | – | – | – | 2,861 | – | 2,861 | – | 2,861 |



Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

| | Attributable to equity holders of the Company | | | | | | | Non-controlling interests | Total equity |
|--|---|---------------|-------------------------------------|----------------|-------------------|----------------|---------------|---------------------------|--------------|
| | Share capital | Share premium | Shares held for share award schemes | Other reserves | Retained earnings | Total | | | |
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Transactions with equity holders | | | | | | | | | |
| Capital injection | – | – | – | – | – | – | 140 | 140 | |
| Employee share option schemes: | | | | | | | | | |
| – value of employee services | – | 1,983 | – | 63 | – | 2,046 | 57 | 2,103 | |
| – proceeds from shares issued | – | 525 | – | – | – | 525 | – | 525 | |
| Employee share award schemes: | | | | | | | | | |
| – value of employee services | – | 5,022 | – | 466 | – | 5,488 | 277 | 5,765 | |
| – shares withheld for share award schemes | – | – | (2,187) | – | – | (2,187) | – | (2,187) | |
| – vesting of awarded shares | – | (1,984) | 1,984 | – | – | – | – | – | |
| Repurchase and cancellation of shares | – | (783) | – | – | – | (783) | – | (783) | |
| Tax benefit from share-based payments | – | – | – | 148 | – | 148 | – | 148 | |
| Profit appropriations to statutory reserves | – | – | – | 517 | (517) | – | – | – | |
| Dividends (Note 15) | – | – | – | – | (6,995) | (6,995) | (618) | (7,613) | |
| Non-controlling interests arising from business combinations | – | – | – | – | – | – | 1,003 | 1,003 | |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | – | 327 | – | (877) | – | (550) | 1,664 | 1,114 | |
| Partial disposal of subsidiaries | – | – | – | – | – | – | (31) | (31) | |
| Dilution of interests in subsidiaries | – | – | – | 2,836 | – | 2,836 | 5,879 | 8,715 | |
| Transfer of equity interests of subsidiaries to non-controlling interests | – | – | – | (1,886) | – | (1,886) | 1,886 | – | |
| Recognition of financial liabilities in respect of the put option from business combination | – | – | – | (406) | – | (406) | – | (406) | |
| Total transactions with equity holders at their capacity as equity holders for the year | <u>–</u> | <u>5,090</u> | <u>(203)</u> | <u>861</u> | <u>(7,512)</u> | <u>(1,764)</u> | <u>10,257</u> | <u>8,493</u> | |
| Balance at 31 December 2018 | <u>–</u> | <u>27,294</u> | <u>(4,173)</u> | <u>729</u> | <u>299,660</u> | <u>323,510</u> | <u>32,697</u> | <u>356,207</u> | |

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.



Consolidated Statement of Cash Flows

For the year ended 31 December 2019

| | | Year ended 31 December | |
|---|-------|------------------------|-----------------------------------|
| | Note | 2019 RMB'Million | 2018 RMB'Million (Note 2.2) |
| Cash flows from operating activities | | | |
| Cash generated from operations | 42(a) | 165,818 | 125,457 |
| Income tax paid | | (17,228) | (14,521) |
| Net cash flows generated from operating activities | | 148,590 | 110,936 |
| Cash flows from investing activities | | | |
| Payments for business combinations, net of cash acquired | | (428) | (3,206) |
| Net outflow of cash in respect of disposals and deemed disposals of subsidiaries | | – | (201) |
| Purchase of property, plant and equipment, construction in progress and investment properties | | (22,766) | (19,743) |
| Proceeds from disposals of property, plant and equipment | | 4 | 33 |
| Purchase of/prepayment for intangible assets | | (29,866) | (31,877) |
| Purchase of/prepayment for land use rights | | (4,356) | (2,441) |
| Payments for acquisition of investments in associates | | (14,904) | (37,776) |
| Proceeds from disposals of investments in associates | | 667 | 429 |
| Payments for acquisition of investments in joint ventures | | (720) | (2,352) |
| Payments for acquisition of financial assets at fair value through other comprehensive income | | (9,425) | (17,669) |
| Proceeds from disposals of financial assets at fair value through other comprehensive income | | – | 22,224 |
| Payments for acquisition of financial assets at fair value through profit or loss | | (39,827) | (54,141) |
| Proceeds from disposals of financial assets at fair value through profit or loss | | 15,744 | 11,254 |
| Payments for loans to investees and others | | (5,648) | (2,523) |
| Loans repayments from investees and others | | 618 | 745 |
| Payments for settlement of other financial liabilities | | (11,391) | – |
| Proceeds from settlement of other financial assets | | 1,222 | – |
| Receipt from maturity of term deposits with initial terms of over three months | | 82,607 | 46,227 |
| Placement of term deposits with initial terms of over three months | | (85,601) | (67,055) |
| Interest received | | 6,230 | 4,435 |
| Dividends received | | 1,670 | 1,724 |
| Net cash flows used in investing activities | | (116,170) | (151,913) |



Consolidated Statement of Cash Flows

For the year ended 31 December 2019

| | Year ended 31 December | |
|--|------------------------|-----------------------------------|
| | 2019 RMB'Million | 2018 RMB'Million (Note 2.2) |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | 18,375 | 26,463 |
| Repayments of short-term borrowings | (22,058) | (23,545) |
| Proceeds from long-term borrowings | 55,075 | 7,237 |
| Repayments of long-term borrowings | (55,168) | (194) |
| Net proceeds from issuance of notes payable | 40,202 | 32,547 |
| Repayments of notes payable | (13,465) | (4,666) |
| Principal elements of lease payments | (2,400) | – |
| Interest paid | (7,047) | (4,493) |
| Proceeds from issuance of ordinary shares as a result of exercise of share options | 272 | 525 |
| Shares withheld for share award schemes | (1,406) | (1,967) |
| Payments for repurchase of shares | (1,046) | (783) |
| Proceeds from issuance of additional equity of non-wholly owned subsidiaries | 440 | 7,238 |
| Proceeds from disposals of non-controlling interests in non-wholly owned subsidiaries | – | 157 |
| Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries | (649) | (236) |
| Dividends paid to the Company's shareholders | (8,315) | (6,776) |
| Dividends paid to non-controlling interests | (1,138) | (620) |
| Net cash flows generated from financing activities | 1,672 | 30,887 |
| Net increase/(decrease) in cash and cash equivalents | 34,092 | (10,090) |
| Cash and cash equivalents at beginning of the year | 97,814 | 105,697 |
| Exchange gains on cash and cash equivalents | 1,085 | 2,207 |
| Cash and cash equivalents at end of the year | 132,991 | 97,814 |

The notes on pages 147 to 264 are an integral part of these consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1 GENERAL INFORMATION

Tencent Holdings Limited (the “Company”) was incorporated in the Cayman Islands with limited liability. 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 Value-added Services (“VAS”), FinTech and Business Services and Online Advertising services.

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 interests 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 benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

- the right to receive the cash received by Tencent Computer from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Tencent Technology owns the valuable assets of the business through the assignment to Tencent Technology of the principal present and future intellectual property rights of Tencent Computer; and
- the right to control the management, financial and operating policies of Tencent Computer.

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 47) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management’s belief it best reflected the substance of the formation.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1 GENERAL INFORMATION (continued)

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. See details in Note 47.

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 all applicable International Financial Reporting Standards (“IFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“FVPL”), financial assets at fair value through other comprehensive income (“FVOCI”), certain other financial liabilities and derivative financial instruments, which are carried at fair value.

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

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

| | |
|--------------------|--|
| IFRS 16 | Leases |
| IFRS 9 (amendment) | Prepayment Features with Negative Compensation |
| IAS 28 (amendment) | Long-term Interests in Associates and Joint Ventures |
| IAS 19 (amendment) | Plan Amendment, Curtailment or Settlement |
| IFRIC 23 | Uncertainty over Income Tax Treatments |

The Group has changed its accounting policies following the adoption of IFRS 16 since 1 January 2019. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated, details of which are disclosed in Note 2.2. Except IFRS 16, the adoption of these new and amended standards does not have significant impact on the consolidated financial statements of the Group.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- (b) New standards and interpretations issued but not yet effective

The following new standards and interpretations have not come into effect for the financial year beginning 1 January 2019 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

| | | Effective for annual periods beginning on or after |
|----------------------------------|---|--|
| Amendments to IAS 28 and IFRS 10 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| Amendments to IAS 1 and IAS 8 | Definition of material | 1 January 2020 |
| Amendments to IFRS 3 | Definition of a business | 1 January 2020 |
| Conceptual Framework | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| IFRS 17 | Insurance contracts | 1 January 2021 |

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 “Leases” on the Group’s consolidated financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated. The new accounting policies are disclosed in Note 2.34.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.58%.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

| | RMB'Million |
|---|-------------|
| Operating lease commitments disclosed as at 31 December 2018 | 12,294 |
| Discounted using the Group's weighted average incremental borrowing rate of 4.58% | 10,684 |
| Less: short-term leases recognised on a straight-line basis as expense | (189) |
| Less: leases contracted at the end of 2018 with leasing period started from 2019 | (540) |
| | <hr/> |
| Lease liabilities recognised as at 1 January 2019 | 9,955 |

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognised in the consolidated statement of financial position as at 31 December 2018. The impact on transition is summarised as below:

| | 1 January 2019 RMB'Million |
|--|-------------------------------|
| Right-of-use assets | 9,688 |
| Lease liabilities | (9,955) |
| Prepayments, deposits and other assets | (23) |
| Other payables and accruals | 290 |

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term within 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

Upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

Since the first quarter of 2019, the Group has reclassified interest paid in cash flow presentation from operating activities to financing activities, which better reflects the nature of business. Comparative figures have been reclassified to conform with the current period presentation.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where 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 consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. 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 also includes the fair value of any asset or liability resulting from a contingent consideration arrangement, which is recognised under "other financial assets" or "other financial liabilities" in the consolidated financial statements. 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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(a) Consolidation (continued)

(i) Business combinations (continued)

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 profit or loss. 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 consolidated income statement.

(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) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated 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 venture 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. It means that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 47(e)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

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.

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally but not necessarily accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include underlying goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. Where the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured long-term 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 accounted for using the equity method, including investments in associates and joint arrangements (Note 2.5), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests 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.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated income statement where appropriate.

2.5 Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of 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 profit or loss and movements in other comprehensive income. Where the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any other unsecured long-term receivables that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests 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.

2.6 Investments 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 interests previously held plus the fair value of any additional consideration transferred as of the date when it becomes associate/joint venture. A gain or loss on re-measurement of the previously held interests is taken to the consolidated income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interests is also taken to the consolidated income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.7 Disposal of associates

When the Group loses significant influence over an associate, it measures any retained investment at fair value. A gain or loss is recognised at any difference between the fair value of any retained interest plus any proceeds from disposing part of the interests in the associate and the carrying amount of the investment at the date the equity method of accounting was discontinued. The amounts previously recognised in other comprehensive income by an associate should be reclassified to the consolidated income statement or transferred to another category of equity as specified and permitted by applicable IFRSs when the Group loses significant influence over the associate.

2.8 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.

2.9 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 functional currency of the Company and certain of its overseas subsidiaries is United States Dollars ("USD"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("RMB"), unless otherwise stated.

(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 consolidated income statement.

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary 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 financial 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.

2.10 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs include expenditures that are 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 consolidated income statement during the reporting period in which they are incurred.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Property, plant and equipment (continued)

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

| | |
|--------------------------------|--|
| Buildings | 20 ~ 50 years |
| Computer equipment | 2 ~ 5 years |
| Furniture and office equipment | 2 ~ 5 years |
| Motor vehicles | 5 years |
| Leasehold improvements | Shorter of their useful lives and the lease term |

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 costs less any impairment loss. Construction in progress is transferred to property, plant and equipment 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 2.15).

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

2.11 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 net of their residual values over their estimated useful lives of 20-50 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.12 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 consolidated income statement on a straight-line basis over the remaining period of the lease.

2.13 Intangible assets

(a) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred plus acquisition-date fair value of the equity interests previously held by the Group and the non-controlling interests in the acquired entity over the fair value of the net identifiable assets of 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 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 under “Other gains/(losses), net” and is not subsequently reversed.

(b) Media contents

Media contents mainly include game licenses, video and music contents, and literature copyrights. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Media contents are amortised using a straight-line method or an accelerated method which reflects the estimated consumption patterns.

(c) Other intangible assets

Other intangible assets mainly include trademarks, other copyrights, computer software and technology, non-compete agreements and land with indefinite useful life. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Land with indefinite useful life is not subject to amortisation and impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impact. Other intangible assets are amortised over their estimated useful lives (generally one to ten years) using the straight-line method which reflects the pattern in which the intangible asset’s future economic benefits are expected to be consumed.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 47(e)) 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 the amount is 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 made to "Share premium".

2.15 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, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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 purpose 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.

2.16 Investments and other financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Initial recognition and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.
- **FVOCI:** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Movements in the carrying amount of these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net" in the consolidated income statement. Interest income from these financial assets is recognised using the effective interest rate method. Foreign exchange gains and losses are presented in "finance costs, net" and impairment losses or reversals are presented in "Other gains/(losses), net".
- **FVPL:** Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains/(losses), net" for the period in which it arises.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Investments and other financial assets (continued)

(a) Classification and measurement (continued)

Equity instruments

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instrument under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains/(losses), net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets designated upon initial recognition at fair value through profit or loss and financial assets that do not meet the criteria for amortised cost or FVOCI. Changes in the fair value of FVPL are recognised in "Other gains/(losses), net" in the consolidated income statement.

(b) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, which are recognised under “other financial assets” and “other financial liabilities” in the consolidated financial statements, respectively. 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 Group designates certain derivatives as hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). The Group documents at the inception of the hedging relationship the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the hedge effectiveness requirements under IFRS 9. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised through other comprehensive income within equity, while any ineffective portion is recognised immediately in profit or loss, within “Other gains/(losses), net”.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item (‘aligned time value’) are recognised within other comprehensive income in the costs of hedging reserve within equity.

Amounts accumulated in equity are accounted for, depending on the nature of the underlying hedged transaction, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, the amounts accumulated in equity are removed from other reserves and included within the initial cost of the asset. These deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- For any other cash flow hedges, the gain or loss relating to the effective portion of the derivatives is reclassified to profit or loss at the same time when the hedged cash flows affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging included in equity are immediately reclassified to profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.18 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the consolidated 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in certain circumstances, such as default, insolvency, bankruptcy or the termination of a contract.

2.19 Inventories

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

2.20 Accounts receivable

Accounts receivable are amounts due from customers or agents for services performed or merchandise sold in the ordinary course of business. If collection of accounts receivable 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.

2.21 Cash and cash equivalents and restricted cash

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

The Group does not recognise cash amounts deposited with banks (which are received under its payment business) under users' entrustment in the consolidated statement of financial position as the Group holds these cash amounts as a custodian according to the relevant users' agreements.

2.22 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 instruments, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders as treasury shares 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 Accounts payable

Accounts payable are obligations to pay for services or goods 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.

2.24 Put option arrangements

Put options are financial instruments granted by the Group which permit the holders to put back to the Group their shares in certain subsidiaries for cash or other financial assets (“OFA”) when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or OFA under the put option, a financial liability is initially recognised under “other financial liabilities” in the consolidated financial statements at the present value of the estimated future cash outflows on exercise under the put option. 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 based on the present value of revised estimated future cash outflows at the financial instrument’s original effective interest rate and the adjustment will be recognised as “Other gains/(losses), net” in the consolidated income statement. In the event that the put option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The put option liabilities are current liabilities unless the put option first becomes exercisable 12 months after the end of the reporting period.

2.25 Financial guarantee contracts

The financial guarantee contracts are initially recognised as a financial liability at fair value on the date the guarantee is given. The liability is subsequently measured at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of the investees are provided for no compensation, the fair value is accounted for as contributions and recognised as part of the cost of the investment.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Borrowings, notes payable and borrowing costs

Borrowings and notes payable 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 consolidated income statement over their terms using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan facilities to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the term of the facility to which it relates.

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.

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.

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2019, finance cost capitalised was insignificant to the Group.

2.27 Current and deferred income tax

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Current and deferred income tax (continued)

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, deferred income tax is not accounted for if it arises from initial recognition of goodwill or 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 tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and tax losses.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except for deferred tax liability where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profit is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred 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.

2.28 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Employee benefits (continued)

(b) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(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 and other qualifying participants as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, i.e. the period over which all of the specified vesting conditions are to be satisfied and credited to 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 option-pricing model, "Enhanced FAS 123" binomial model (the "Binomial 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 techniques 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 service conditions are included in assumptions about the number of options that are expected to become vested.

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Employee benefits (continued)

(c) Share-based compensation benefits (continued)

At each reporting period end, the Group revises the estimates of the number of options and awarded shares that are expected to ultimately vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement of the Group, with a corresponding adjustment to equity.

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.

If the Group repurchases vested equity instruments, the payments made to the employees and other qualifying participants shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees and other qualifying participants, as measured at the date of modification.

Cash-settled share-based payment transactions are those arrangements which the terms provide the Group to settle the transaction in cash. Upon the vesting conditions, if any, are met, the Group shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at the end of the reporting period. The Group adopts valuation technique to assess the fair value of such equity instruments granted under the share-based compensation plans as appropriate.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.29 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 can be reliably estimated. Provisions are not recognised for future 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 discount 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.

2.30 Revenue recognition

The Group generates revenues primarily from provision of VAS, FinTech and Business Services, online advertising services and other online related services in the PRC. Revenue is recognised when the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

(a) VAS

Revenues from VAS primarily include revenues from the provision of online games and social networks services. Online games revenues are mainly derived from sales of in-game virtual items, and social networks revenues are mainly derived from sales of virtual products such as VAS subscriptions across various online platforms, and games revenues attributable to social networks business. The Group offers virtual products/items to users on the Group's online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenue from VAS is recognised when the Group satisfies its performance obligations by rendering services. Giving there is an explicit or implicit obligation of the Group to maintain the virtual products/items operated on the Group's platforms and allow users to gain access to them, revenue is recognised over the estimated lifespans of the respective virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected user relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective term of virtual products/items.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Revenue recognition (continued)

(a) VAS (continued)

Where the contracts include multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

In respect of the Group's VAS services directly delivered to the Group's customers and paid through various third-party platforms, these third-party platforms collect the relevant service fees (the "Online Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of platform provider fees (as part of "Channel and distribution costs"). Such Channel and distribution costs are withheld and deducted from the gross Online Service Fees collected by these platforms from the users, with the net amounts remitted to the Group. The Group recognises the Online Service Fees as revenue on a gross basis, given it acts as the principal in these transactions based on the assessment according to the criteria stated in (e) below, and recognises such Channel and distribution costs as cost of revenues.

The Group also opens its online platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of the Group's online platforms for the virtual products/items purchased. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

(b) FinTech and Business Services

FinTech and Business Services revenues mainly comprise revenues derived from provision of FinTech and cloud services.

FinTech service revenues mainly include commissions from payment, wealth management and other FinTech services, which is generally determined as a percentage based on the value of transaction amount or retention amount. Revenue related to such commissions is recognised upon a time when the Group satisfies its performance obligations by rendering services.

Cloud services are mainly charged on either a subscription or consumption basis. For cloud service contracts billed based on a fixed amount for a specified service period, revenue is recognised over the subscribed period when the services are delivered to customers. For cloud service provided on a consumption basis, revenue is recognised based on the customer utilisation of the resources. When a cloud-based service includes multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Revenue recognition (continued)

(c) Online Advertising

Online Advertising revenues mainly comprise revenues derived from media advertisements and from social and others advertisements, depending on the placement of advertising properties and inventories.

Advertising contracts are signed to establish the prices and advertising services to be provided based on different arrangements, including display-based advertising that are display of ads for an agreed period of time, and performance-based advertising.

Revenue from display-based advertising are recognised on number of display/impression basis or ratably over the respective contractual term with the advertisers or their advertising agencies depending on the contractual measures. Revenue from performance-based advertising are recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

(d) Other revenues

The Group's other revenues are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. The Group recognises other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

(e) Principal agent consideration

The Group reports the revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.30 Revenue recognition (continued)

(f) Contract liabilities and contract costs

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the inception dates, and customer loyalty incentives offered to the customers (Note 5(c)).

Contract costs include incremental costs of obtaining a contract and costs to fulfil a contract with the customers. The contract costs are amortised using a method which is consistent with the pattern of recognition of the respective revenues.

(g) Practical expedients and exemptions

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less. The unsatisfied performance obligation related to cooperation agreements with certain investees have been included in deferred revenue.

2.31 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "Interest income" where it is mainly earned from financial assets that are held for cash management purposes.

2.32 Dividend income

Dividends are received from FVPL and FVOCI. Dividends are recognised in "Other gains/(losses), net" in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.33 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 and expenses which the grants/subsidies are intended to compensate.

2.34 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

The Group leases land use rights (Note 2.12), various buildings, computer equipment and others. Rental contracts are typically made for fixed periods of no longer than 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to 1 January 2019, 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 lessors) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Upon initial adoption of IFRS 16 from 1 January 2019, a lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. A right-of-use asset arising from land lease is presented as "land use rights".



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.34 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.34 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

A right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, the differences arisen on settlement of the liabilities and the amortisation of the right-of-use assets, there will be a net temporary difference on which deferred tax is recognised.

2.35 Dividends distribution

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

2.36 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong Dollars ("HKD"), USD and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's subsidiaries. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures by using foreign currency forwards.

During the year ended 31 December 2019, the Group entered into foreign currency forward contracts in relation to projected purchases that qualify as "high probable" forecast transactions and hence satisfy the requirements for hedge accounting. Under the Group's policy the critical terms of the forwards must align with the hedged items.

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted, where material.

The changes in the forward element of the foreign currency forwards that relate to hedged items are deferred in the costs of hedging reserve. The effects of the foreign currency related hedging instruments are not material to the Group's consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2019, the Group's major monetary assets and liabilities exposed to foreign exchange risk are listed below:

| | USD denominated RMB'Million | Non-USD denominated RMB'Million |
|-----------------------------------|-----------------------------------|---------------------------------------|
| As at 31 December 2019 | | |
| Monetary assets, current | 27,728 | 2,899 |
| Monetary assets, non-current | 373 | – |
| Monetary liabilities, current | (4,273) | (14,732) |
| Monetary liabilities, non-current | (91) | (5,739) |
| | <u>23,737</u> | <u>(17,572)</u> |
| As at 31 December 2018 | | |
| Monetary assets, current | 18,041 | 1,994 |
| Monetary assets, non-current | 2,642 | – |
| Monetary liabilities, current | (3,434) | (4,587) |
| Monetary liabilities, non-current | (3,733) | (9,430) |
| | <u>13,516</u> | <u>(12,023)</u> |

During the year ended 31 December 2019, the Group reported exchange gains of approximately RMB77 million (2018: RMB229 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2019, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant, given the exchange rate peg between HKD and USD. Accordingly, no sensitivity analysis is presented for foreign exchange risk.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 24) or FVOCI (Note 25). To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group's liquidity level simultaneously. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL and FVOCI at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2018: 5%) higher/lower as at 31 December 2019, profit for the year would have been approximately RMB6,611 million higher/lower as a result of gains/losses on financial instruments classified as at FVPL (2018: RMB4,794 million), other comprehensive income would have been approximately RMB4,018 million higher/lower as a result of gains/losses on financial instruments classified as at FVOCI (2018: RMB2,147 million).

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 26, 29 and 31.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 35 and 36, representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group regularly monitors its interest rate risk to identify if there are any undue exposures to significant interest rate movements and manages its cash flow interest rate risk by using interest rate swaps, whenever considered necessary.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

During the year ended 31 December 2019, the Group entered into certain interest rate swap contracts to hedge its exposure arising from borrowings carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings from floating rates to fixed rates and were qualified for hedge accounting. Details of the Group's outstanding interest rate swap contracts as at 31 December 2019 have been disclosed in Note 38.

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

| | 2019 RMB'Million | 2018 RMB'Million |
|---|-------------------------|-------------------------|
| Interest rate swaps | | |
| Carrying amount (non-current (liabilities)/assets) | (494) | 1,663 |
| Notional amount | 29,423 | 77,630 |
| Maturity date | 30/7/2021~ 11/4/2024 | 28/6/2019~ 8/12/2023 |
| Hedge ratio | 1:1 | 1:1 |
| Change in fair value of outstanding hedging instruments since 1 January | (2,139) | 181 |
| Change in value of hedged item used to determine hedge effectiveness | (2,139) | 181 |
| Weighted average hedged rate for the year | 2.10% | 1.60% |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Swaps currently in place cover majority of the floating-rate borrowing and notes payable principal outstanding.

As at 31 December 2019 and 2018, management considered that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant. Accordingly, no sensitivity analysis is presented for interest rate risk.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits placed with banks and financial institutions, accounts receivable, other receivables, as well as short-term investments measured at amortised cost, at FVOCI and at FVPL. The carrying amount of each class of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

The majority of the balances of accounts receivable are due from advertising customers and agencies, content production related customers, FinTech and cloud customers and third party platform providers. To manage the risk arising from accounts receivable, the Group has policies in place to ensure that revenues of credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit periods granted to these customers are disclosed in Note 30 and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors. The Group has a large number of customers and there is no concentration of credit risk.

Other receivables are mainly comprised of loans to investees and investees' shareholders, rental deposits and other receivables. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.



3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at year end with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counterparty; and
- significant changes in the expected performance and behavior of the counterparty, including changes in the payment status of the counterparty.

(i) Credit risk of cash and deposits and short-term investments

To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit loss is close to zero.

(ii) Credit risk of accounts receivable

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. In view of the sound financial position and collection history of receivables due from these counterparties and insignificant risk of default, to measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit risk of accounts receivable (continued)

The expected loss rates are based on the payment profiles of revenue over 12 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as the GDP of the countries in which it sells its goods and services) affecting the ability of the customers to settle the receivables.

A default on accounts receivable is when the counterparty fails to make contractual payments within 90 days of when they fall due. Accounts receivable are written off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan within the Group, and a failure to make contractual payments for a period of greater than 3 years past due.

Impairment losses on accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same item.

(iii) Credit risk of other receivables

Management considers the credit risk of other receivables is insignificant when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and readily marketable securities, which are classified as FVPL. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate balances of such.

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date (or the earliest date a financial liability may become payable in the absence of a fixed maturity date). The amounts disclosed in the table are the contractual undiscounted cash flows.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

| | 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 2019 | | | | | |
| Non-derivatives: | | | | | |
| Notes payable | 13,727 | 3,047 | 32,866 | 73,466 | 123,106 |
| Long-term payables | – | 2,322 | 1,079 | 227 | 3,628 |
| Borrowings | 26,164 | 21,343 | 91,447 | – | 138,954 |
| Lease liabilities | 3,526 | 2,840 | 4,866 | 1,739 | 12,971 |
| Other financial liabilities | 5,745 | 1,680 | 2,363 | – | 9,788 |
| Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) | 104,218 | – | – | – | 104,218 |
| Derivatives: | | | | | |
| Other financial liabilities | 29 | – | 494 | – | 523 |
| | <u>153,409</u> | <u>31,232</u> | <u>133,115</u> | <u>75,432</u> | <u>393,188</u> |
| At 31 December 2018 | | | | | |
| Non-derivatives: | | | | | |
| Notes payable | 15,780 | 12,010 | 14,629 | 38,305 | 80,724 |
| Long-term payables | – | 3,113 | 1,018 | 343 | 4,474 |
| Borrowings | 30,402 | 21,309 | 72,626 | – | 124,337 |
| Other financial liabilities | 1,191 | 942 | 1,615 | – | 3,748 |
| Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) | 90,310 | – | – | – | 90,310 |
| Derivatives: | | | | | |
| Other financial liabilities | 9 | – | 31 | – | 40 |
| | <u>137,692</u> | <u>37,374</u> | <u>89,919</u> | <u>38,648</u> | <u>303,633</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group 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.

Capital refers to equity and external debts (including borrowings and notes payable). 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, repurchase the Company's shares or raise/repay debts.

The Group monitors capital by regularly reviewing debts to adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") (Note) ratio, being the measure of the Group's ability to pay off all debts that reflects financial health and liquidity position. The total debts/adjusted EBITDA ratio calculated by dividing the total debts by adjusted EBITDA is as follows:

| | As at 31 December | |
|-----------------------------------|-------------------|-------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Borrowings (Note 35) | 126,952 | 114,271 |
| Notes payable (Note 36) | 93,861 | 65,018 |
| Total debts | 220,813 | 179,289 |
| Adjusted EBITDA (Note) | 147,395 | 118,273 |
| Total debts/Adjusted EBITDA ratio | 1.50 | 1.52 |

Note:

Adjusted EBITDA represents operating profit less interest income and other gains/(losses), net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, amortisation of intangible assets and equity-settled share-based compensation expenses.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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).

| | Level 1 RMB'Million | Level 2 RMB'Million | Level 3 RMB'Million | Total RMB'Million |
|-------------------------------|------------------------|------------------------|------------------------|----------------------|
| As at 31 December 2019 | | | | |
| FVPL | 14,766 | 5,091 | 116,079 | 135,936 |
| FVOCI | 74,707 | – | 7,014 | 81,721 |
| OFA | – | 375 | – | 375 |
| Other financial liabilities | – | 523 | 1,873 | 2,396 |
| As at 31 December 2018 | | | | |
| FVPL | 10,875 | 5,009 | 81,993 | 97,877 |
| FVOCI | 41,578 | – | 1,941 | 43,519 |
| OFA | – | 2,032 | – | 2,032 |
| Other financial liabilities | – | 40 | 4,466 | 4,506 |

The fair value of financial instruments traded in active markets is determined with reference to 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. 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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 mainly include:

- Dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

During the year ended 31 December 2019, there was 1 transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 for the years ended 31 December 2019 and 2018:

| | Financial assets | | Financial liabilities | |
|---|------------------|-------------|-----------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Opening balance – IAS 39 | | 77,131 | | 2,154 |
| Adjustment on adoption of IFRS 9 | | 22,976 | | – |
| Opening balance – IFRS 9 | 83,934 | 100,107 | 4,466 | 2,154 |
| Additions | 39,116 | 51,185 | 75 | 3,301 |
| Business combination | – | – | (977) | – |
| Disposals/Settlements | (6,714) | (9,899) | (1,193) | – |
| Transfers | (4,552) | (93,151) | – | – |
| Changes in fair value recognised in other comprehensive income | 328 | 261 | – | – |
| Changes in fair value recognised in profit or loss* | 9,241 | 30,485 | (463) | (1,063) |
| Currency translation differences | 1,740 | 4,946 | (35) | 74 |
| Closing balance | 123,093 | 83,934 | 1,873 | 4,466 |
| * Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period | 3,265 | 6,861 | (463) | (1,063) |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note:

Valuation processes inputs and relationships to fair value (Level 3)

The Group has a team of personnel who performs valuation on these level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every quarter, which coincides with the Group's quarterly reporting dates. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts may also be involved and consulted when it is necessary.

The components of the level 3 instruments mainly include investments in unlisted companies classified as FVPL or FVOCI, and other financial liabilities. Other financial liabilities mainly include contingent consideration payable related to business combination of the Group. As these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other exposure, etc.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of investments in unlisted companies.

| Description | Fair value as at 31 December | | Significant unobservable inputs | Range of inputs at 31 December | | Relationship of unobservable inputs to fair value |
|---|---------------------------------|---------------------|------------------------------------|-----------------------------------|-----------|---|
| | 2019 RMB'Million | 2018 RMB'Million | | 2019 | 2018 | |
| Investments in unlisted companies in FVPL and FVOCI | 118,775 | 80,175 | Expected volatility | 36% ~ 83% | 28% ~ 76% | The higher the expected volatility, the lower the fair value |
| Contingent consideration related to business combination | 1,873 | 3,145 | Growth rate of net profit | 35% | 50% | The higher the growth rate, the higher the fair value |
| | | | Expected volatility | 25% | 15% | The higher the expected volatility, the lower the fair value |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Note: (continued)

For the fair value of the Group's investments in unlisted companies, the sensitivity analysis is performed by management, see Note 3.1(a)(ii) for details.

For the fair value of contingent consideration related to business combination, if growth rate of net profit had been 5% higher or lower as at 31 December 2019, the fair value would have increased approximately RMB65 million (2018: RMB150 million) or decreased approximately RMB66 million (2018: RMB171 million). If the expected volatility had been 5% higher or lower as at 31 December 2019, the fair value would have decreased approximately RMB34 million (2018: RMB90 million) or increased approximately RMB25 million (2018: RMB92 million).

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.

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) The estimates of the lifespans of virtual products/items provided on the Group's online platforms

As mentioned in Note 2.30(a), the end users purchase certain virtual products/items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective terms of virtual products/items.

Significant judgments are required in determining the expected users' relationship periods, including but not limited to historical users' consumption patterns, churn out rate and reactivity on marketing activities, games life-cycle, and the Group's marketing strategy. The Group has adopted a policy of assessing the estimated lifespans of virtual products/items on a regular basis whenever there is any indication of change in the expected users' relationship periods.

The Group will continue to monitor the average lifespans of the virtual products/items. The results may differ from the historical period, and any change in the estimates may result in the revenue being recognised on a different basis from that in prior periods.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Recoverability of non-financial assets

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

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

(c) Fair value measurement of FVPL, FVOCI and other financial liabilities

The fair value assessment of FVPL, FVOCI and other financial liabilities that are measured at level 3 fair value hierarchy requires significant estimates, which include risk-free rates, expected volatility, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

(d) Share-based compensation arrangements

As mentioned in Note 2.28(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 34).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD3,250 million (equivalent to approximately RMB2,785 million) in 2019 (2018: HKD3,533 million (equivalent to approximately RMB2,868 million)).

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 consolidated income statement. As at 31 December 2019, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 95%-97% (31 December 2018: 88%-97%).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. 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 in the period in which such determination is made.

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities

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

In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand the Group's revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The new "FinTech and Business Services" segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in the consolidated income statement and the note have been restated to conform 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 the following reportable segments for the years ended 31 December 2019 and 2018:

- VAS;
- FinTech and Business Services;
- Online Advertising; and
- Others.

Subsequent to the change, the "Others" business segment now consists of the financials of investment in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these 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 income/(costs), net, share of profit/(loss) of associates and joint ventures and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended 31 December 2019 and 2018. 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 these consolidated financial statements. 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 2019 and 2018 is as follows:

| | Year ended 31 December 2019 | | | | |
|------------------|-----------------------------|-------------------------------------|-----------------------|--------------|----------------|
| | VAS | FinTech and Business Services | Online Advertising | Others | Total |
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Segment revenues | <u>199,991</u> | <u>101,355</u> | <u>68,377</u> | <u>7,566</u> | <u>377,289</u> |
| Gross profit | <u>105,905</u> | <u>27,524</u> | <u>33,517</u> | <u>587</u> | <u>167,533</u> |
| Depreciation | 3,461 | 6,669 | 2,065 | 108 | 12,303 |
| Amortisation | <u>14,710</u> | <u>–</u> | <u>9,977</u> | <u>3,115</u> | <u>27,802</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

| | Year ended 31 December 2018 | | | | |
|------------------|-----------------------------|-------------------------------------|-----------------------|---------------------------|----------------|
| | VAS | FinTech and Business Services | Online Advertising | Others | Total |
| | RMB'Million | RMB'Million (Restated) | RMB'Million | RMB'Million (Restated) | RMB'Million |
| Segment revenues | <u>176,646</u> | <u>73,138</u> | <u>58,079</u> | <u>4,831</u> | <u>312,694</u> |
| Gross profit | <u>102,685</u> | <u>18,540</u> | <u>20,806</u> | <u>89</u> | <u>142,120</u> |
| Depreciation | 1,996 | 3,514 | 1,376 | 144 | 7,030 |
| Amortisation | <u>11,663</u> | <u>–</u> | <u>12,462</u> | <u>573</u> | <u>24,698</u> |

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. During the years ended 31 December 2019 and 2018, breakdown of the total revenues by geographical location is as follows:

| | 2019 RMB'Million | 2018 RMB'Million |
|------------------|---------------------|---------------------|
| Revenues | | |
| – Mainland China | 360,562 | 303,657 |
| – Others | <u>16,727</u> | <u>9,037</u> |
| | <u>377,289</u> | <u>312,694</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUES (continued)

(a) Description of segments and principal activities (continued)

The Group also conducts operations in the United States of America (“United States”), Europe and other regions, and holds investments (including investments in associates, investments in joint ventures, FVPL and FVOCI) in various territories. The geographical information on the total assets is as follows:

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Operating assets | | |
| – Mainland China | 345,721 | 270,373 |
| – Others | 168,714 | 83,962 |
| Investments | | |
| – Mainland China and Hong Kong | 289,491 | 254,992 |
| – North America | 76,488 | 44,835 |
| – Europe | 29,707 | 37,451 |
| – Asia excluding Mainland China and Hong Kong | 40,139 | 30,148 |
| – Others | 3,726 | 1,760 |
| | 953,986 | 723,521 |

As at 31 December 2019, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB311,386 million (31 December 2018: RMB282,774 million) and RMB136,338 million (31 December 2018: RMB65,057 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group’s total revenues during the years ended 31 December 2019 and 2018.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUES (continued)

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue of the Group from contracts with customers is disaggregated by revenue source. The table also includes a reconciliation to the segment information (Note 5(a)).

| | 2019 RMB'Million | 2018 RMB'Million |
|---------------------------------------|---------------------|---------------------|
| Revenue from contracts with customers | | |
| – VAS | 199,991 | 176,646 |
| <i>Online games</i> | 114,710 | 103,992 |
| <i>Social networks</i> | 85,281 | 72,654 |
| – FinTech and Business Services | 101,355 | 73,138 |
| – Online Advertising | 68,377 | 58,079 |
| <i>Media advertising</i> | 15,480 | 18,306 |
| <i>Social and others advertising</i> | 52,897 | 39,773 |
| – Others | 7,566 | 4,831 |
| | <u>377,289</u> | <u>312,694</u> |

(c) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers under “Deferred revenue”:

| | As at 31 December | |
|-------------------------------|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Contract liabilities: | | |
| VAS | 46,438 | 31,787 |
| Fintech and Business Services | 2,013 | 931 |
| Online advertising | 7,939 | 9,145 |
| Others | 137 | 174 |
| | <u>56,527</u> | <u>42,037</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 SEGMENT INFORMATION AND REVENUES (continued)

(c) Assets and liabilities related to contracts with customers (continued)

Note:

(i) Contract liabilities

Contract liabilities mainly comprise of unamortised pre-paid tokens or cards, virtual items, Internet traffic and other support to be offered to certain investee companies in the future periods measured at their fair value on the relevant inception dates (Note 21), and customer loyalty incentives offered to the customers.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

| | 2019 RMB'Million | 2018 RMB'Million |
|--|---------------------|---------------------|
| Revenue recognised that was included in the contract liability balance at the beginning of the year: | | |
| VAS | 31,787 | 34,360 |
| FinTech and Business Services | 923 | 230 |
| Online advertising | 3,045 | 2,681 |
| Others | 174 | 2 |
| | <u>35,929</u> | <u>37,273</u> |

As at 31 December 2019, total capitalised costs to obtain or fulfill a contract with customer were immaterial.

6 INTEREST INCOME

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7 OTHER GAINS, NET

| | 2019 RMB'Million | 2018 RMB'Million |
|---|---------------------|---------------------|
| Net gains on disposals and deemed disposals of investee companies (Note (a)) | 8,492 | 2,932 |
| Net fair value gains on FVPL (Note (b)) | 9,511 | 28,738 |
| Subsidies and tax rebates | 4,263 | 3,456 |
| Impairment provision/(reversal) for investee companies and intangible assets arising from acquisitions (Note (c)) | (4,006) | (17,577) |
| Net fair value gains on other financial instruments (Note 27 and Note 38) | 1,647 | 1,019 |
| Dividend income | 1,014 | 686 |
| Donations to Tencent Charity Funds | (850) | (730) |
| Others | (382) | (1,810) |
| | 19,689 | 16,714 |

Note:

- (a) The disposal and deemed disposal gains of approximately RMB8,492 million recognised during the year ended 31 December 2019 mainly comprised the following:
- net gains of approximately RMB4,859 million (2018: RMB1,661 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 21). These investee companies are principally engaged in Internet-related business; and
 - aggregate net gains of approximately RMB3,633 million (2018: RMB1,271 million) on disposals, partial disposals or deemed disposals of various investments of the Group.
- (b) Net fair value gains on FVPL of approximately RMB9,511 million (Note 24) recognised during the year ended 31 December 2019 mainly comprised the following:
- aggregate gains of approximately RMB1,886 million (2018: RMB22,215 million) arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of the Group's redeemable instruments or preferred shares of these investee companies into their ordinary shares and the Group has board representation upon their respective initial public offerings ("IPO"); and
 - net gains of approximately RMB7,625 million (2018: RMB6,523 million) from fair value changes of FVPL.
- (c) The impairment provision/(reversal) for investee companies and intangible assets arising from acquisitions mainly comprised the following:

| | 2019 RMB'Million | 2018 RMB'Million |
|---|---------------------|---------------------|
| Investments in associates (Note 21) | 3,877 | 14,069 |
| Investments in joint ventures (Note 22) | (54) | 2,328 |
| Intangible assets arising from acquisitions | 183 | 1,180 |
| | 4,006 | 17,577 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8 EXPENSES BY NATURE

| | 2019 RMB'Million | 2018 RMB'Million |
|--|---------------------|---------------------|
| Transaction costs (Note (a)) | 85,702 | 69,976 |
| Employee benefits expenses (Note (b) and Note 13) | 53,123 | 42,153 |
| Content costs (excluding amortisation of intangible assets) | 48,321 | 39,061 |
| Amortisation of intangible assets (Note (c) and Note 20) | 28,954 | 25,616 |
| Bandwidth and server custody fees (excluding depreciation of right-of-use assets) | 16,284 | 15,818 |
| Depreciation of property, plant and equipment, investment properties and right-of-use assets (Note 16 and Note 18) | 15,623 | 8,423 |
| Promotion and advertising expenses | 16,405 | 19,806 |
| Travelling and entertainment expenses | 1,773 | 1,450 |
| Auditor's remuneration | | |
| – Audit and audit-related services | 105 | 110 |
| – Non-audit services | 43 | 26 |

Note:

- (a) Transaction costs primarily consist of bank handling fees, channel and distribution costs.
- (b) During the year ended 31 December 2019, the Group incurred expenses for the purpose of research and development of approximately RMB30,387 million (2018: RMB22,936 million), which comprised employee benefits expenses of approximately RMB24,478 million (2018: RMB19,088 million).

During the year ended 31 December 2019, employee benefits expenses included the share-based compensation expenses of approximately RMB10,500 million (2018: RMB7,900 million).

No significant development expenses had been capitalised for the years ended 31 December 2019 and 2018.

- (c) Included the amortisation charges of intangible assets mainly in respect of media contents.

During the year ended 31 December 2019, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB1,051 million (2018: RMB524 million).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9 FINANCE COSTS, NET

| | 2019 RMB'Million | 2018 RMB'Million |
|-------------------------------|---------------------|---------------------|
| Interest and related expenses | 7,690 | 4,898 |
| Exchange gains | (77) | (229) |
| | <u>7,613</u> | <u>4,669</u> |

Interest and related expenses mainly arose from the borrowings, notes payable and lease liabilities disclosed in Notes 35, 36 and 18, respectively.

10 SHARE OF (LOSS)/PROFIT OF ASSOCIATES AND JOINT VENTURES, NET

| | 2019 RMB'Million | 2018 RMB'Million |
|--|---------------------|---------------------|
| Share of (loss)/profit of associates (Note 21) | (1,371) | 1,301 |
| Share of (loss)/profit of joint ventures (Note 22) | (310) | 186 |
| | <u>(1,681)</u> | <u>1,487</u> |

11 TAXATION

(a) Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2019 and 2018.

(ii) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2019 and 2018.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11 TAXATION (continued)

(a) Income tax expense (continued)

(iii) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in Mainland China for the years ended 31 December 2019 and 2018. The general PRC CIT rate is 25% in 2019 and 2018.

Certain subsidiaries of the Group in Mainland China were approved as High and New Technology Enterprise, and accordingly, they were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2019 and 2018. Moreover, according to the announcement and circular issued by relevant government authorities, certain subsidiaries that qualified as national key software enterprises were subject to a preferential corporate income tax rate of 10%.

In addition, according to relevant tax circulars issued by Mainland China tax authorities, certain subsidiaries of the Company are entitled to other tax concessions, mainly including the preferential policy of “2-year exemption and 3-year half rate concession” and the preferential tax rate of 15% applicable for some subsidiaries located in certain areas of Mainland China upon fulfillment of certain requirements of the respective local governments.

(iv) Corporate income tax in other jurisdictions

Income tax on profits arising from other jurisdictions, including the United States, Europe, East Asia and South America, has been calculated on the estimated assessable profit for the year at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(v) Withholding tax

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11 TAXATION (continued)

(a) Income tax expense (continued)

The income tax expense of the Group is analysed as follows:

| | 2019 RMB'Million | 2018 RMB'Million |
|-------------------------------|---------------------|---------------------|
| Current income tax | 14,730 | 15,091 |
| Deferred income tax (Note 28) | (1,218) | (609) |
| | <u>13,512</u> | <u>14,482</u> |

The taxation 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 (2018: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

| | 2019 RMB'Million | 2018 RMB'Million |
|---|---------------------|---------------------|
| Profit before income tax | 109,400 | 94,466 |
| Share of loss/(profit) of associates and joint ventures, net | 1,681 | (1,487) |
| | <u>111,081</u> | <u>92,979</u> |
| Tax calculated at a tax rate of 25% | 27,770 | 23,245 |
| Effects of different tax rates applicable to different subsidiaries of the Group | (17,236) | (14,668) |
| Effects of tax holiday and preferential tax benefits on assessable profits of subsidiaries incorporated in Mainland China | (3,584) | (958) |
| Income not subject to tax | (71) | (43) |
| Expenses not deductible for tax purposes | 1,177 | 1,434 |
| Withholding tax on earnings expected to be remitted by subsidiaries (Note 28) | 2,650 | 3,360 |
| Unrecognised deferred income tax assets | 3,027 | 2,378 |
| Others | (221) | (266) |
| Income tax expense | <u>13,512</u> | <u>14,482</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11 TAXATION (continued)

(b) Value-added tax and other taxes

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

| Category | Tax rate | Basis of levy |
|--|-------------------|--|
| Value-added tax ("VAT") | 6~17% (Note i) | Sales value of goods sold and services fee income, offsetting by VAT on purchases |
| Construction fee for cultural undertakings | 3% (Note ii) | Taxable advertising income |
| City construction tax | 7% | Net VAT payable amount |
| Educational surcharge | 5% | Net VAT payable amount |

Note:

- (i) Effective from 1 May 2018, the 17% and 11% VAT rates applicable to certain goods and services have been reduced to 16% and 10%, respectively, and such VAT rate have been further reduced to 13% and 9% since 1 April 2019, respectively.
- (ii) Effective from 1 July 2019 to 31 December 2024, construction fee for cultural undertakings have been reduced by 50% in certain jurisdictions.

12 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.

| | 2019 | 2018 |
|--|---------------|---------------|
| Profit attributable to equity holders of the Company (RMB'Million) | <u>93,310</u> | <u>78,719</u> |
| Weighted average number of ordinary shares in issue (million shares) | <u>9,468</u> | <u>9,444</u> |
| Basic EPS (RMB per share) | <u>9.856</u> | <u>8.336</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

12 EARNINGS PER SHARE (continued)

(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).

In addition, the profit attributable to equity holders (numerator) has been adjusted by the effect of the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates, excluding those which have anti-dilutive effect to the Group's diluted EPS.

| | 2019 | 2018 |
|--|---------------|--------|
| Profit attributable to equity holders of the Company (RMB'Million) | 93,310 | 78,719 |
| Dilution effect arising from share-based awards issued by non-wholly owned subsidiaries and associates (RMB'Million) | (708) | — |
| Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million) | 92,602 | 78,719 |
| Weighted average number of ordinary shares in issue (million shares) | 9,468 | 9,444 |
| Adjustments for share options and awarded shares (million shares) | 135 | 124 |
| Weighted average number of ordinary shares for the calculation of diluted EPS (million shares) | 9,603 | 9,568 |
| Diluted EPS (RMB per share) | 9.643 | 8.228 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13 EMPLOYEE BENEFITS EXPENSES

| | 2019 RMB'Million | 2018 RMB'Million |
|--|---------------------|---------------------|
| Wages, salaries and bonuses | 35,782 | 28,236 |
| Contributions to pension plans (Note) | 3,001 | 2,553 |
| Share-based compensation expenses | 10,500 | 7,900 |
| Welfare, medical and other expenses (Note) | 3,725 | 3,355 |
| Training expenses | 115 | 109 |
| | 53,123 | 42,153 |

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. 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 contributions made 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 certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2019 and 2018 are listed below:

| | Percentage |
|------------------------|--------------|
| Pension insurance | 12.0 ~ 20.0% |
| Medical insurance | 5.2 ~ 10.5% |
| Unemployment insurance | 0.32 ~ 1.5% |
| Housing fund | 10.0 ~ 12.0% |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13 EMPLOYEE BENEFITS EXPENSES (continued)

(a) Senior management's emoluments

Senior management includes directors, chief executive officer ("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 14(a), is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|------------------|------------------|
| Salaries, bonuses, allowances and benefits in kind | 379,536 | 329,721 |
| Contributions to pension plans | 759 | 874 |
| Share-based compensation expenses | 2,219,669 | 1,555,671 |
| | 2,599,964 | 1,886,266 |

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

| | Number of individuals | |
|-----------------------------------|-----------------------|------|
| | 2019 | 2018 |
| Emolument bands | | |
| HKD8,000,000 ~ HKD50,000,000 | 1 | 1 |
| HKD50,000,001 ~ HKD200,000,000 | 9 | 9 |
| HKD200,000,001 ~ HKD350,000,000 | – | – |
| HKD350,000,001 ~ HKD700,000,000 | – | 2 |
| HKD700,000,001 ~ HKD1,050,000,000 | 2 | – |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2019 (2018: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2019 and 2018. The emoluments paid/payable to the remaining four (2018: four) individuals during the year were as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|-----------------------------------|------------------|------------------|
| Salaries and bonuses | 514,296 | 393,071 |
| Contributions to pension plans | 4,565 | 11,872 |
| Share-based compensation expenses | 1,512,706 | 968,642 |
| Allowances and benefits in kind | 90 | 84 |
| | <u>2,031,657</u> | <u>1,373,669</u> |

The emoluments of the above four individuals (2018: four) fell within the following bands:

| | Number of individuals | |
|---------------------------------|-----------------------|------|
| Emolument bands | 2019 | 2018 |
| HKD196,500,001 ~ HKD197,000,000 | – | 2 |
| HKD221,000,001 ~ HKD221,500,000 | 2 | – |
| HKD545,500,001 ~ HKD546,000,000 | – | 1 |
| HKD628,000,001 ~ HKD628,500,000 | – | 1 |
| HKD860,500,001 ~ HKD861,000,000 | 1 | – |
| HKD964,500,001 ~ HKD965,000,000 | 1 | – |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and the chief executive's emoluments

The remuneration of every director and the CEO is set out below:

During the year ended 31 December 2019:

| Name of director | Fees RMB' 000 | Salaries and bonuses RMB' 000 | Contributions to pension plans RMB' 000 | Share-based compensation expenses RMB' 000 | Allowances and benefits in kind RMB' 000 (Note (i)) | Total RMB' 000 |
|------------------------------|------------------|-------------------------------------|--|---|---|-------------------|
| Ma Huateng (CEO) | 1,256 | 45,256 | 91 | – | 22 | 46,625 |
| Lau Chi Ping Martin | 1,256 | 34,204 | – | 319,216 | 85 | 354,761 |
| Iain Ferguson Bruce | 985 | – | – | 3,761 | – | 4,746 |
| Ian Charles Stone | 985 | – | – | 4,572 | – | 5,557 |
| Li Dong Sheng | 717 | – | – | 2,285 | – | 3,002 |
| Jacobus Petrus (Koos) Bekker | – | – | – | – | – | – |
| Charles St Leger Searle | – | – | – | – | – | – |
| Yang Siu Shun | 896 | – | – | 3,447 | – | 4,343 |
| Ke Yang (Note (iii)) | 716 | – | – | 306 | – | 1,022 |
| | <u>6,811</u> | <u>79,460</u> | <u>91</u> | <u>333,587</u> | <u>107</u> | <u>420,056</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and the chief executive's emoluments (continued)

During the year ended 31 December 2018:

| Name of director | Fees | Salaries and bonuses | Contributions to pension plans | Share-based compensation expenses | Allowances and benefits in kind | Total |
|------------------------------|--------------|----------------------|--------------------------------|-----------------------------------|---------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | | (Note (i)) | |
| Ma Huateng (CEO) | 1,235 | 37,469 | 118 | – | 20 | 38,842 |
| Lau Chi Ping Martin | 1,235 | 28,214 | – | 283,899 | 125 | 313,473 |
| Iain Ferguson Bruce | 964 | – | – | 3,892 | – | 4,856 |
| Ian Charles Stone | 964 | – | – | 4,262 | – | 5,226 |
| Li Dong Sheng | 701 | – | – | 2,131 | – | 2,832 |
| Jacobus Petrus (Koos) Bekker | – | – | – | – | – | – |
| Charles St Leger Searle | – | – | – | – | – | – |
| Yang Siu Shun | 876 | – | – | 2,325 | – | 3,201 |
| | <u>5,975</u> | <u>65,683</u> | <u>118</u> | <u>296,509</u> | <u>145</u> | <u>368,430</u> |

Note:

- (i) Allowances and benefits in kind include leave pay, insurance premium and club membership.
- (ii) During the year ended 31 December 2019, 3,506,580 options were granted to one executive director of the Company (2018: 3,215,800 options were granted to one executive director of the Company), and 59,484 awarded shares were granted to five independent non-executive directors of the Company (2018: 39,500 awarded shares were granted to four independent non-executive directors of the Company).
- (iii) Ke Yang has been appointed as an Independent Non-Executive Director and a member of the Corporate Governance Committee with effect from 15 August 2019.
- (iv) 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 2019 and 2018.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(d) Information about loans, quasi-loans and other dealings in favour of directors, their controlled bodies and connected entities

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company 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.

15 DIVIDENDS

The dividends amounting to RMB8,305 million (final dividend for 2018: RMB6,776 million) were paid during the year ended 31 December 2019.

A special dividend of approximately HKD250 million (equivalent to approximately RMB219 million) was declared in December 2018 to the shareholders of the Company by way of a distribution in respect of the separate listing of Tencent Music Entertainment Group ("TME"), a non-wholly owned subsidiary of the Group on the New York Stock Exchange. Such dividend was settled by the Group with cash and shares of TME in February 2019.

A final dividend in respect of the year ended 31 December 2019 of HKD1.20 per share (2018: HKD1.00 per share) was proposed pursuant to a resolution passed by the Board on 18 March 2020 and subject to the approval of the shareholders at the 2020 annual general meeting of the Company to be held on 13 May 2020 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.



Notes to the Consolidated Financial Statements

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16 PROPERTY, PLANT AND EQUIPMENT

At 1 January 2019

| | Buildings | Computer equipment | Furniture and office equipment | Motor vehicles | Leasehold improvements | Total |
|---|--------------|-----------------------|--------------------------------------|-------------------|---------------------------|---------------|
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Cost | 9,313 | 44,835 | 1,370 | 44 | 2,443 | 58,005 |
| Accumulated depreciation and impairment | (1,677) | (19,297) | (808) | (26) | (1,241) | (23,049) |
| Currency translation differences | (1) | 43 | 13 | – | 80 | 135 |
| Net book amount | <u>7,635</u> | <u>25,581</u> | <u>575</u> | <u>18</u> | <u>1,282</u> | <u>35,091</u> |

Year ended 31 December 2019

| | | | | | | |
|----------------------------------|---------------|---------------|------------|-----------|--------------|---------------|
| Opening net book amount | 7,635 | 25,581 | 575 | 18 | 1,282 | 35,091 |
| Business combinations | – | 74 | 2 | – | 38 | 114 |
| Additions | 3,509 | 19,623 | 463 | 13 | 509 | 24,117 |
| Disposals | (9) | (16) | (7) | – | (5) | (37) |
| Depreciation | (897) | (11,113) | (205) | (7) | (322) | (12,544) |
| Currency translation differences | – | 65 | 1 | – | 17 | 83 |
| Closing net book amount | <u>10,238</u> | <u>34,214</u> | <u>829</u> | <u>24</u> | <u>1,519</u> | <u>46,824</u> |

At 31 December 2019

| | | | | | | |
|---|---------------|---------------|------------|-----------|--------------|---------------|
| Cost | 12,805 | 62,094 | 1,788 | 56 | 2,930 | 79,673 |
| Accumulated depreciation and impairment | (2,566) | (27,988) | (973) | (32) | (1,508) | (33,067) |
| Currency translation differences | (1) | 108 | 14 | – | 97 | 218 |
| Net book amount | <u>10,238</u> | <u>34,214</u> | <u>829</u> | <u>24</u> | <u>1,519</u> | <u>46,824</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

16 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings | Computer equipment | Furniture and office equipment | Motor vehicles | Leasehold improvements | Total |
|---|--------------|-----------------------|--------------------------------------|-------------------|---------------------------|---------------|
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| At 1 January 2018 | | | | | | |
| Cost | 8,852 | 28,504 | 1,136 | 41 | 2,090 | 40,623 |
| Accumulated depreciation and impairment | (1,021) | (14,337) | (659) | (24) | (1,023) | (17,064) |
| Currency translation differences | – | (26) | 16 | – | 48 | 38 |
| Net book amount | <u>7,831</u> | <u>14,141</u> | <u>493</u> | <u>17</u> | <u>1,115</u> | <u>23,597</u> |
| Year ended 31 December 2018 | | | | | | |
| Opening net book amount | 7,831 | 14,141 | 493 | 17 | 1,115 | 23,597 |
| Business combinations | – | 2 | 3 | 1 | 3 | 9 |
| Additions | 457 | 18,716 | 255 | 3 | 383 | 19,814 |
| Disposals | (2) | (25) | (1) | – | (2) | (30) |
| Depreciation | (650) | (7,322) | (172) | (3) | (249) | (8,396) |
| Currency translation differences | (1) | 69 | (3) | – | 32 | 97 |
| Closing net book amount | <u>7,635</u> | <u>25,581</u> | <u>575</u> | <u>18</u> | <u>1,282</u> | <u>35,091</u> |
| At 31 December 2018 | | | | | | |
| Cost | 9,313 | 44,835 | 1,370 | 44 | 2,443 | 58,005 |
| Accumulated depreciation and impairment | (1,677) | (19,297) | (808) | (26) | (1,241) | (23,049) |
| Currency translation differences | (1) | 43 | 13 | – | 80 | 135 |
| Net book amount | <u>7,635</u> | <u>25,581</u> | <u>575</u> | <u>18</u> | <u>1,282</u> | <u>35,091</u> |

During the year ended 31 December 2019, depreciation of RMB10,828 million (2018: RMB7,030 million), RMB203 million (2018: RMB153 million) and RMB1,513 million (2018: RMB1,213 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

17 LAND USE RIGHTS

| | 2019 RMB'Million | 2018 RMB'Million |
|--------------------------------|---------------------|---------------------|
| Opening net book amount | 7,106 | 5,111 |
| Additions | 8,714 | 2,348 |
| Amortisation | (211) | (353) |
| Closing net book amount | 15,609 | 7,106 |

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 30 to 55 years.

18 LEASES (EXCLUDING LAND USE RIGHTS)

(a) Amounts recognised in the consolidated statement of financial position

Except recognition of lease liabilities, the carrying amounts of right-of-use assets (excluding land use rights, disclosed in Note 17), are as below:

| | Buildings RMB'Million | Computer equipment RMB'Million | Others RMB'Million | Total RMB'Million |
|---|--------------------------|--------------------------------------|-----------------------|----------------------|
| Net book amount as at 1 January 2019 (Note 2.2) | <u>5,505</u> | <u>4,177</u> | <u>6</u> | <u>9,688</u> |
| Net book amount as at 31 December 2019 | <u>5,574</u> | <u>5,253</u> | <u>20</u> | <u>10,847</u> |

Additions to the right-of-use assets (excluding land use rights, disclosed in Note 17) during the year ended 31 December 2019 were RMB4,241 million.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

18 LEASES (EXCLUDING LAND USE RIGHTS) (continued)

(b) Amounts recognised in consolidated income statement

The consolidated income statement shows the following amounts relating to leases (excluding the amortisation of land use rights, disclosed in Note 17):

| | 2019 RMB'Million |
|--|---------------------|
| Depreciation charge of right-of-use assets | |
| Buildings | 1,543 |
| Computer equipment | 1,501 |
| Others | 5 |
| | 3,049 |
| Interest expense (included in finance costs, net) | 541 |
| Expense relating to short-term leases not included in lease liabilities (included in cost of revenues and expenses) | 1,344 |
| Expense relating to variable lease payments not included in lease liabilities (included in cost of revenues and expenses) | 2,783 |

Some computer equipment contain variable lease payments. Variable payments are used for a variety of reasons, including managing cash outflows and minimising the fixed costs. Variable lease payments that depend on usage of bandwidth are recognised in profit or loss in the period in which the condition that triggers those payments occur. Variable lease payments relating to computer equipment leases during the year ended 31 December 2019 were considered to be insignificant.

The total cash outflow in financing activities for leases during the year ended 31 December 2019 was RMB2,882 million, including principal elements of lease payments of approximately RMB2,400 million and related interest paid of approximately RMB482 million, respectively.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

19 CONSTRUCTION IN PROGRESS

| | 2019 RMB'Million | 2018 RMB'Million |
|---|---------------------|---------------------|
| Opening net book amount | 4,879 | 3,163 |
| Additions | 3,168 | 2,809 |
| Transfer to property, plant and equipment | (4,111) | (1,094) |
| Currency translation differences | (1) | 1 |
| Closing net book amount | 3,935 | 4,879 |

As at 31 December 2019, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

20 INTANGIBLE ASSETS

At 1 January 2019

| | Goodwill | Computer software and technology | Media contents | Trademarks | Others | Total |
|---|---------------|----------------------------------|----------------|--------------|--------------|---------------|
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| Cost | 33,730 | 3,902 | 54,292 | 1,710 | 3,089 | 96,723 |
| Accumulated amortisation and impairment | (1,348) | (2,060) | (35,040) | (482) | (1,445) | (40,375) |
| Currency translation differences | 223 | 8 | 78 | (1) | (6) | 302 |
| Net book amount | <u>32,605</u> | <u>1,850</u> | <u>19,330</u> | <u>1,227</u> | <u>1,638</u> | <u>56,650</u> |

Year ended 31 December 2019

| | | | | | | |
|----------------------------------|---------------|--------------|---------------|--------------|--------------|----------------|
| Opening net book amount | 32,605 | 1,850 | 19,330 | 1,227 | 1,638 | 56,650 |
| Business combinations (Note 41) | 60,326 | 145 | 7,143 | 6,793 | 845 | 75,252 |
| Additions | – | 502 | 25,870 | 33 | 169 | 26,574 |
| Disposals | – | – | (1,049) | – | (11) | (1,060) |
| Amortisation | – | (470) | (27,758) | (223) | (503) | (28,954) |
| Impairment provision | (20) | (81) | (51) | (81) | (1) | (234) |
| Currency translation differences | 545 | 10 | 55 | 10 | 12 | 632 |
| Closing net book amount | <u>93,456</u> | <u>1,956</u> | <u>23,540</u> | <u>7,759</u> | <u>2,149</u> | <u>128,860</u> |

At 31 December 2019

| | | | | | | |
|---|---------------|--------------|---------------|--------------|--------------|----------------|
| Cost | 94,056 | 4,553 | 78,911 | 8,535 | 4,049 | 190,104 |
| Accumulated amortisation and impairment | (1,368) | (2,615) | (55,504) | (785) | (1,906) | (62,178) |
| Currency translation differences | 768 | 18 | 133 | 9 | 6 | 934 |
| Net book amount | <u>93,456</u> | <u>1,956</u> | <u>23,540</u> | <u>7,759</u> | <u>2,149</u> | <u>128,860</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

20 INTANGIBLE ASSETS (continued)

| | Goodwill | Computer software and technology | Media contents | Trademarks | Others | Total |
|---|---------------|--|-----------------------|-----------------------|-----------------------|---------------|
| | RMB'Million | RMB'Million | RMB'Million (Note) | RMB'Million (Note) | RMB'Million (Note) | RMB'Million |
| At 1 January 2018 | | | | | | |
| Cost | 24,143 | 2,947 | 36,477 | 709 | 3,413 | 67,689 |
| Accumulated amortisation and impairment | (564) | (1,437) | (23,535) | (240) | (1,651) | (27,427) |
| Currency translation differences | 29 | (6) | (1) | (6) | (12) | 4 |
| Net book amount | <u>23,608</u> | <u>1,504</u> | <u>12,941</u> | <u>463</u> | <u>1,750</u> | <u>40,266</u> |
| Year ended 31 December 2018 | | | | | | |
| Opening net book amount | 23,608 | 1,504 | 12,941 | 463 | 1,750 | 40,266 |
| Business combinations | 9,587 | 454 | 420 | 1,030 | 410 | 11,901 |
| Additions | – | 522 | 31,725 | 23 | (38) | 32,232 |
| Disposals | – | – | (1,200) | (25) | (25) | (1,250) |
| Amortisation | – | (457) | (24,635) | (63) | (461) | (25,616) |
| Impairment provision | (784) | (187) | – | (206) | (4) | (1,181) |
| Currency translation differences | 194 | 14 | 79 | 5 | 6 | 298 |
| Closing net book amount | <u>32,605</u> | <u>1,850</u> | <u>19,330</u> | <u>1,227</u> | <u>1,638</u> | <u>56,650</u> |
| At 31 December 2018 | | | | | | |
| Cost | 33,730 | 3,902 | 54,292 | 1,710 | 3,089 | 96,723 |
| Accumulated amortisation and impairment | (1,348) | (2,060) | (35,040) | (482) | (1,445) | (40,375) |
| Currency translation differences | 223 | 8 | 78 | (1) | (6) | 302 |
| Net book amount | <u>32,605</u> | <u>1,850</u> | <u>19,330</u> | <u>1,227</u> | <u>1,638</u> | <u>56,650</u> |

Note:

To better help investors understand the composition of the Group's intangible assets, trademarks are presented as a separate category instead of being grouped under "Others", while game licenses, video and music contents, copyrights and other online contents are brought together under the "Media contents" category. The comparative figures have been restated to conform with the new presentation.

During the year ended 31 December 2019, amortisation of RMB27,802 million (2018: RMB24,698 million) and RMB1,152 million (2018: RMB918 million) were charged to cost of revenues and general and administrative expenses, respectively.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

20 INTANGIBLE ASSETS (continued)

During the year ended 31 December 2019, impairment losses of RMB183 million (2018: RMB1,181 million) on goodwill and other intangible assets were charged to the consolidated income statement under “Other gains/(losses), net”, and RMB51 million (2018: Nil) were charged to “cost of revenues” resulting from revisions of financial/business outlook and changes in the market environment for the underlying business.

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB86,489 million (31 December 2018: RMB25,672 million), FinTech and Business Services segment with RMB34 million (31 December 2018: Nil) and Others segment with RMB6,933 million (31 December 2018: RMB6,933 million). The Group carries out its impairment testing on goodwill by comparing the recoverable amounts of CGUs or groups of CGUs to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (or groups of CGUs) is the higher of its fair value less costs of disposal and its value in use.

The key assumptions used for the calculation of the recoverable amounts of the CGUs (or groups of CGUs) under impairment testing were as follows:

For goodwill attributable to the Group’s businesses in online music, online literature, television series and film production, value in use using discounted cash flows was calculated, in most cases, based on five-year period to ten-year period financial projections plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of generally not more than 5% (2018: not more than 5%). Pre-tax discount rates ranging from 13% to 25% (2018: 15% to 25%) were adopted, which reflected assessment of time value and specific risks relating to the industries that the Group operates in. Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Key parameters applied in the financial projections for impairment review purpose also included revenue growth rates, on a compound annual basis, of not more than 18% (2018: not more than 27%).

For goodwill attributable to the Group’s online game business within VAS segment, fair value less costs of disposal was determined based on ratios of EV (enterprise value) divided by EBITDA of several comparable public companies (range: 10-25x) (2018: range: 11-21x) multiplied by the EBITDA of the related CGU (or group of CGUs) and discounted for lack of marketability at a range of 10% to 20% (2018: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

As at 31 December 2019, management has not identified reasonably possible change in key assumptions that could cause carrying amounts of the CGU’s (or groups of CGUs) to exceed the recoverable amount.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

21 INVESTMENTS IN ASSOCIATES

| | As at 31 December | |
|--|-------------------|----------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Investments in associates | | |
| – Listed entities | 141,350 | 130,633 |
| – Unlisted entities | 72,264 | 88,582 |
| | <u>213,614</u> | <u>219,215</u> |
| | | |
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| At beginning of the year | 219,215 | 113,779 |
| Additions (Note (a)) | 14,077 | 40,918 |
| Transfers (Note (b)) | (18,948) | 71,593 |
| Deemed disposal gains (Note 7(a)) | 4,859 | 1,661 |
| Share of (loss)/profit of associates (Note 10) | (1,371) | 1,301 |
| Share of other comprehensive income of associates | 130 | 24 |
| Share of other changes in net assets of associates | 2,322 | 2,861 |
| Dividends | (550) | (908) |
| Disposals (Note (c)) | (3,555) | (725) |
| Impairment provision, net (Note (d)) | (3,877) | (14,069) |
| Currency translation differences | 1,312 | 2,780 |
| | <u>213,614</u> | <u>219,215</u> |
| At end of the year | | |

Note:

- (a) During the year ended 31 December 2019, the Group acquired certain new associates and made additional investments in existing associates with an aggregate amount of approximately RMB14,077 million. These associates are principally engaged in transportation network, retail and other Internet-related business.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

21 INVESTMENTS IN ASSOCIATES (continued)

Note: (continued)

- (b) During the year ended 31 December 2019, transfers mainly comprised the following:
- (i) investment in an associate of approximately RMB17,735 million, which held majority interests in a mobile game developer, was transferred to investment in a subsidiary (Note 41(a));
 - (ii) associates achieved in stages of an aggregate amount of approximately RMB6,127 million, which mainly included approximately RMB3,202 million transferred from FVPL due to the conversion of redeemable instruments or preferred shares into ordinary shares upon their IPOs, and approximately RMB2,874 million transferred from financial instruments due to acquiring board representatives or converting the convertible promissory note; and
 - (iii) associates of an aggregate amount of approximately RMB6,029 million were transferred to FVPL and approximately RMB1,311 million were transferred to FVOCI as a result of changes in nature of these investments.
- (c) During the year ended 31 December 2019, a company listed in the PRC completed a substantial assets reorganisation pursuant to which it acquired the entire equity interest of an associate of the Group through a share swap. Upon completion of the aforesaid reorganisation, the Group's equity interest in that associate was exchanged for approximately 5% of the issued ordinary shares of the listed company valued at approximately RMB3,526 million. Since the Group has no board representative in the listed company and this investment is not held for trading, this investment was recognised as FVOCI.
- (d) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investment may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

In respect of the recoverable amount using value in use, the discounted cash flows calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margins and discount rate. The pre-tax discount rates adopted range from 15% to 20%. In respect of the recoverable amount based on fair value less costs of disposal, except for those listed associates using their respective market prices, the fair value less costs of disposal was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of RMB3,877 million (2018: RMB14,069 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2019, which includes impairment loss of approximately RMB5,427 million recognised and approximately RMB1,550 million reversed. The impairment losses mainly resulted from revisions of financial/business outlook of the associates and changes in the market environment of the underlying business.

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

21 INVESTMENTS IN ASSOCIATES (continued)

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 its stakes in the associates which are listed entities, are shown in aggregate as follows:

| | Assets | Liabilities | Revenues | Profit/ (loss) from continuing operation | Other comprehensive income | Total comprehensive income/(loss) | Fair value of stakes in listed associates as at 31 December |
|----------------------------|----------------|----------------|----------------|---|----------------------------------|---|--|
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| 2019 | | | | | | | |
| Listed entities | <u>243,940</u> | <u>102,590</u> | <u>167,222</u> | <u>(4,462)</u> | <u>164</u> | <u>(4,298)</u> | <u>334,688</u> |
| Non-listed entities | <u>194,518</u> | <u>122,254</u> | <u>42,458</u> | <u>3,091</u> | <u>(34)</u> | <u>3,057</u> | |
| | <u>438,458</u> | <u>224,844</u> | <u>209,680</u> | <u>(1,371)</u> | <u>130</u> | <u>(1,241)</u> | |
| 2018 | | | | | | | |
| Listed entities | <u>210,311</u> | <u>79,678</u> | <u>126,027</u> | <u>(3,337)</u> | <u>25</u> | <u>(3,312)</u> | <u>187,339</u> |
| Non-listed entities | <u>225,799</u> | <u>137,217</u> | <u>47,081</u> | <u>4,638</u> | <u>(1)</u> | <u>4,637</u> | |
| | <u>436,110</u> | <u>216,895</u> | <u>173,108</u> | <u>1,301</u> | <u>24</u> | <u>1,325</u> | |

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and an associate with shareholding over 50% (voting power is below 50%), with total carrying amounts of RMB145,971 million and RMB13,393 million as at 31 December 2019, respectively (31 December 2018: RMB149,175 million and RMB24,948 million, respectively). Management determined that it has significant influence thereon through the board representation or other arrangements made, and it has no control or joint control over such investees as the Group has no power to direct relevant activities due to other arrangements made. Consequently, these investments have been classified as associates.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

21 INVESTMENTS IN ASSOCIATES (continued)

Particulars of a material associate of the Group, as determined by the directors, are set out below:

| Name of entity | Place of incorporation | Number of shares held | Interest held indirectly | Principal activities/place of operation |
|------------------|------------------------|-----------------------|--------------------------|---|
| Meituan Dianping | PRC | 1,046,951,338 | 18.02% | eCommerce platform for services/the PRC |

Except Meituan Dianping, the directors of the Company considered that there is no other individual investment which was determined as a material associate.

Set out below are the summarised financial information of Meituan Dianping extracted from its financial statements prepared under IFRS.

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Summarised consolidated financial statements | | |
| Revenues | 97,529 | 65,227 |
| Profit/(loss) for the year | 2,236 | (115,493) |
| Other comprehensive income/(loss) | 683 | (7,803) |
| Total comprehensive income/(loss) for the year | <u>2,919</u> | <u>(123,296)</u> |
| Summarised consolidated balance sheet | | |
| Current assets | 82,135 | 73,150 |
| Non-current assets | 49,878 | 47,512 |
| Current liabilities | 36,593 | 31,825 |
| Non-current liabilities | 3,366 | 2,327 |
| Total equity | <u>92,054</u> | <u>86,510</u> |
| Reconciliation to carrying amounts: | | |
| Net assets | <u>92,054</u> | <u>86,510</u> |
| Group's share in % | 18.02% | 19.06% |
| Group's share in RMB | 16,588 | 16,489 |
| Goodwill and others | <u>33,083</u> | <u>33,756</u> |
| Carrying amount | <u>49,671</u> | <u>50,245</u> |



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21 INVESTMENTS IN ASSOCIATES (continued)

As at 31 December 2019, the carrying amount of the investment in Meituan Dianping relative to the Group's total assets is 5.21%, and the fair value of this investment which is a listed entity was RMB95,566 million.

There were no dividends or realised gain received from Meituan Dianping during the year ended 31 December 2019 and the unrealised gain mainly represents the Group's share of profit of Meituan Dianping.

There were no material contingent liabilities relating to the Group's interests in the associates.

Transactions with associates

During the year ended 31 December 2019, the Group had undertaken transactions relating to the provision of various services such as FinTech services, business services and online advertising to certain associates, which mainly engaged in various Internet businesses such as eCommerce, O2O platforms, FinTech services under, among others, certain business co-operation arrangements. The transactions with associates for the years ended 31 December 2019 and 2018 were considered not significant compared to total revenue in the consolidated financial statements.

22 INVESTMENTS IN JOINT VENTURES

As at 31 December 2019, the Group's investments in joint ventures of RMB8,280 million (31 December 2018: RMB8,575 million) mainly comprised investee companies that are principally a special purpose vehicle of which we have a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in new retail and entertainment-related business.

Share of loss amounting to RMB310 million was recognised during the year ended 31 December 2019 (2018: share of profit of RMB186 million) (Note 10).

During the year ended 31 December 2019, the Group reversed an aggregate impairment of RMB54 million (2018: impairment provision of RMB2,328 million) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amounts.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

23 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2019, the financial instruments of the Group are analysed as follows:

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Financial assets | | |
| Financial assets at amortised cost: | | |
| Deposits and other receivables (Note 26) | 12,512 | 10,757 |
| Term deposits (Note 29) | 65,911 | 62,918 |
| Accounts receivable (Note 30) | 35,839 | 28,427 |
| Cash and cash equivalents (Note 31(a)) | 132,991 | 97,814 |
| Restricted cash (Note 31(b)) | 2,180 | 2,590 |
| Financial assets at fair value: | | |
| FVPL (Note 24) | 135,936 | 97,877 |
| FVOCI (Note 25) | 81,721 | 43,519 |
| OFA (Note 27) | 375 | 2,032 |
| | 467,465 | 345,934 |
| Financial liabilities | | |
| Financial liabilities at amortised cost: | | |
| Borrowings (Note 35) | 126,952 | 114,271 |
| Notes payable (Note 36) | 93,861 | 65,018 |
| Long-term payables (Note 37) | 3,577 | 4,797 |
| Other financial liabilities (Note 38) | 8,703 | – |
| Accounts payable (Note 39) | 80,690 | 73,735 |
| Lease liabilities (Note 18) | 11,707 | – |
| Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 40) | 23,528 | 16,841 |
| Financial liabilities at fair value: | | |
| Other financial liabilities (Note 38) | 2,396 | 4,506 |
| | 351,414 | 279,168 |

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.



Notes to the Consolidated Financial Statements

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24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

| | As at 31 December | |
|--|-------------------|---------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Included in non-current assets: | | |
| Investments in listed entities | | |
| – Japan | 3,571 | 3,360 |
| – United Kingdom | 2,525 | 2,613 |
| – United States | 1,636 | 1,442 |
| – Mainland China | 1,352 | 537 |
| – Sweden | 591 | 539 |
| – Hong Kong | 570 | 398 |
| – South Korea | 163 | 234 |
| | 10,408 | 9,123 |
| Investments in unlisted entities | 111,761 | 78,234 |
| Others | 6,653 | 4,345 |
| | 128,822 | 91,702 |
| Included in current assets: | | |
| Investment in a listed entity | 15 | – |
| Treasury investments and others | 7,099 | 6,175 |
| | 7,114 | 6,175 |
| | 135,936 | 97,877 |



Notes to the Consolidated Financial Statements

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24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement of FVPL is analysed as follows:

| | 2019 RMB'Million | 2018 RMB'Million |
|-----------------------------------|---------------------|---------------------|
| At beginning of the year | 97,877 | – |
| Adjustment on adoption of IFRS 9 | – | 95,497 |
| Additions (Note (a)) | 44,618 | 60,807 |
| Transfers (Note (b)) | (1,421) | (78,816) |
| Changes in fair value (Note 7(b)) | 9,511 | 28,738 |
| Disposals (Note (c)) | (16,664) | (14,805) |
| Currency translation differences | 2,015 | 6,456 |
| At end of the year | 135,936 | 97,877 |

Note:

- (a) During the year ended 31 December 2019, the Group's additions to FVPL mainly comprised the following:
- (i) an investment in a retail company of approximately USD500 million (equivalent to approximately RMB3,550 million) to subscribe for approximately 21% of its equity interests in form of preferred shares, on an outstanding basis;
 - (ii) an additional investment in a real estate O2O platform in the PRC of approximately USD320 million (equivalent to approximately RMB2,258 million). As at 31 December 2019, the Group's equity interests in this investee company are approximately 9% on an outstanding basis; and
 - (iii) new investments and additional investments with an aggregate amount of approximately RMB38,810 million in listed and unlisted entities mainly operating in the United States, the PRC and other Asian countries. These companies are principally engaged in social networks, Internet platform, technology and other Internet-related business. None of the above investment was individually significant that triggers any disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time of inception.
- (b) During the year ended 31 December 2019, except as described in Note 21(b), transfers also mainly comprised an equity investment designated as FVOCI due to the conversion of the redeemable instruments into ordinary shares amounting to RMB1,395 million upon its IPO.
- (c) During the year ended 31 December 2019, the Group disposed of certain investments with an aggregate amount of RMB16,664 million, which are mainly engaged in the provision of Internet-related services.
- (d) Management has assessed the level of influence that the Group exercises on certain FVPL with shareholding exceeding 20%. Since these investments are either held in form of redeemable instruments or interests in limited life partnership without significant influence, these investments have been classified as FVPL.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

| | As at 31 December | |
|---|-------------------|---------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Equity investments in listed entities | | |
| – United States | 59,449 | 33,120 |
| – Mainland China | 11,858 | 5,365 |
| – France | 2,691 | 3,093 |
| – Hong Kong | 460 | – |
| – United Kingdom | 249 | – |
| | 74,707 | 41,578 |
| Equity investments in unlisted entities | 7,014 | 1,941 |
| | 81,721 | 43,519 |

Movement of FVOCI is analysed as follows:

| | 2019 | 2018 |
|-------------------------------------|---------------|---------------|
| | RMB'Million | RMB'Million |
| At beginning of the year | 43,519 | – |
| Adjustment on adoption of IFRS 9 | – | 58,515 |
| Additions (Note (a) and Note 21(c)) | 13,768 | 17,689 |
| Transfers | 211 | 3,577 |
| Changes in fair value | 23,349 | (16,578) |
| Disposals | (702) | (22,200) |
| Currency translation differences | 1,576 | 2,516 |
| At end of the year | 81,721 | 43,519 |

Note:

- (a) During the year ended 31 December 2019, except as described in Note 21(c), the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB10,242 million in companies which are principally engaged in Internet-related business.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

26 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Included in non-current assets: | | |
| Prepayments for media contents | 15,731 | 13,652 |
| Loans to investees and investees' shareholders (Note (a)) | 937 | 3,864 |
| Prepayments for capital investments in investees | 587 | 619 |
| Running royalty fees for online games (Note (b)) | 564 | 99 |
| Others | 5,623 | 3,297 |
| | 23,442 | 21,531 |
| Included in current assets: | | |
| Running royalty fees for online games (Note (b)) | 10,888 | 5,230 |
| Prepayments and prepaid expenses | 8,353 | 7,532 |
| Interest receivables | 2,774 | 1,697 |
| Lease deposits and other deposits | 1,107 | 693 |
| Dividend and other investment-related receivables | 1,034 | 338 |
| Refundable value-added tax | 629 | 915 |
| Loans to investees and investees' shareholders (Note (a)) | 447 | 225 |
| Others | 2,608 | 1,863 |
| | 27,840 | 18,493 |
| | 51,282 | 40,024 |

Note:

- (a) As at 31 December 2019, the balances of loans to investees and investees' shareholders are mainly repayable within a period of one to five years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 12.0% per annum (31 December 2018: not higher than 12.0% per annum).
- (b) Running royalty fees for online games comprised prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2019, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax) approximated their fair values. Deposits and other assets were neither past due nor impaired.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27 OTHER FINANCIAL ASSETS

As at 31 December 2019, the Group's current other financial assets comprised a derivative contract and call options held by the Group to acquire additional equity interests in an investee company of the Group.

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.

The analysis of deferred income tax assets and liabilities before offsetting is as follows:

| | As at 31 December | |
|---|-------------------|-----------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Deferred income tax assets: | | |
| – to be recovered after more than 12 months | 11,412 | 7,216 |
| – to be recovered within 12 months | 8,966 | 8,539 |
| | <u>20,378</u> | <u>15,755</u> |
| Deferred income tax liabilities: | | |
| – to be recovered after more than 12 months | (13,916) | (9,834) |
| – to be recovered within 12 months | (1,094) | (1,130) |
| | <u>(15,010)</u> | <u>(10,964)</u> |



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28 DEFERRED INCOME TAXES (continued)

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

| | Deferred income tax assets RMB'Million | Deferred income tax liabilities RMB'Million | Deferred income tax, net RMB'Million |
|--|---|--|---|
| At 1 January 2019 | 15,755 | (10,964) | 4,791 |
| Business combinations | 20 | (2,967) | (2,947) |
| Credited/(charged) to consolidated income statement (Note 11) | 4,455 | (3,237) | 1,218 |
| Withholding taxes paid | — | 2,545 | 2,545 |
| Credited/(charged) to consolidated statement of changes in equity | 108 | (338) | (230) |
| Currency translation differences | 40 | (49) | (9) |
| Set-off of deferred tax assets/liabilities | (2,169) | 2,169 | — |
| At 31 December 2019 | 18,209 | (12,841) | 5,368 |

| | Deferred income tax assets RMB'Million | Deferred income tax liabilities RMB'Million | Deferred income tax, net RMB'Million |
|---|---|--|---|
| At 1 January 2018 | 9,793 | (5,975) | 3,818 |
| Business combinations | 62 | (563) | (501) |
| Credited/(charged) to consolidated income statement (Note 11) | 5,713 | (5,104) | 609 |
| Withholding taxes paid | — | 1,773 | 1,773 |
| Credited to consolidated statement of changes in equity | 170 | 17 | 187 |
| Other additions | — | (986) | (986) |
| Currency translation differences | 17 | (126) | (109) |
| At 31 December 2018 | 15,755 | (10,964) | 4,791 |



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28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax assets before offsetting were as follows:

| | Deferred income tax assets on temporary differences arising from | | | | |
|--|--|-------------|---------------------|---------------------------------------|---------------|
| | Accelerated amortisation of intangible assets | Tax losses | Accrued expenses | Share-based payments and others | Total |
| | RMB'Million | RMB'Million | RMB'Million | RMB'Million | RMB'Million |
| | | (Note) | | | |
| At 1 January 2019 | 4,404 | 91 | 8,078 | 3,182 | 15,755 |
| Business combinations | – | – | – | 20 | 20 |
| Credited to consolidated income statement | 1,651 | 593 | 588 | 1,623 | 4,455 |
| Credited to consolidated statement of changes in equity | – | – | – | 108 | 108 |
| Currency translation differences | – | – | – | 40 | 40 |
| At 31 December 2019 | 6,055 | 684 | 8,666 | 4,973 | 20,378 |
| At 1 January 2018 | 1,902 | 96 | 5,565 | 2,230 | 9,793 |
| Business combinations | – | – | – | 62 | 62 |
| Credited/(charged) to consolidated income statement | 2,502 | (5) | 2,513 | 703 | 5,713 |
| Credited to consolidated statement of changes in equity | – | – | – | 170 | 170 |
| Currency translation differences | – | – | – | 17 | 17 |
| At 31 December 2018 | 4,404 | 91 | 8,078 | 3,182 | 15,755 |

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2019, the Group did not recognise deferred income tax assets of RMB1,889 million (31 December 2018: RMB1,351 million) in respect of cumulative tax losses amounting to RMB8,569 million (31 December 2018: RMB6,277 million). These tax losses will expire from 2020 to 2024.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

28 DEFERRED INCOME TAXES (continued)

The movements of deferred income tax liabilities before offsetting were as follows:

| | Deferred income tax liabilities on temporary differences arising from | | | | | | Total RMB'Million |
|--|--|--|---|--|---|-----------------------|----------------------|
| | Intangible assets acquired in business combinations RMB'Million | Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million | Change in fair value of FVPL and FVOCI RMB'Million | Deemed disposals of investees RMB'Million | Accelerated tax depreciation RMB'Million | Others RMB'Million | |
| At 1 January 2019 | (892) | (5,668) | (1,299) | (919) | (1,634) | (552) | (10,964) |
| Business combinations | (2,958) | – | – | – | – | (9) | (2,967) |
| Credited/(charged) to consolidated income statement | 223 | (2,650) | (89) | 33 | (1,112) | 358 | (3,237) |
| Withholding tax paid | – | 2,545 | – | – | – | – | 2,545 |
| Charged to consolidated statement of changes in equity | – | – | (338) | – | – | – | (338) |
| Currency translation differences | – | (8) | (17) | – | – | (24) | (49) |
| At 31 December 2019 | (3,627) | (5,781) | (1,743) | (886) | (2,746) | (227) | (15,010) |
| At 1 January 2018 | (506) | (4,075) | (151) | (779) | – | (464) | (5,975) |
| Business combinations | (563) | – | – | – | – | – | (563) |
| Credited/(charged) to consolidated income statement | 178 | (3,360) | (75) | (139) | (1,634) | (74) | (5,104) |
| Withholding tax paid | – | 1,773 | – | – | – | – | 1,773 |
| Credited to consolidated statement of changes in equity | – | – | 17 | – | – | – | 17 |
| Other additions | – | – | (986) | – | – | – | (986) |
| Currency translation differences | (1) | (6) | (104) | (1) | – | (14) | (126) |
| At 31 December 2018 | (892) | (5,668) | (1,299) | (919) | (1,634) | (552) | (10,964) |

As at 31 December 2019, the Group recognised the relevant deferred income tax liabilities of RMB5,781 million (31 December 2018: RMB5,668 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB21,139 million (31 December 2018: RMB13,685 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.



Notes to the Consolidated Financial Statements

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29 TERM DEPOSITS

An analysis of the Group's term deposits by currencies are as follows:

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Included in non-current assets: | | |
| RMB term deposits | <u>19,000</u> | <u>—</u> |
| Included in current assets: | | |
| RMB term deposits | 28,598 | 55,180 |
| USD term deposits | 16,325 | 6,349 |
| Other currencies | <u>1,988</u> | <u>1,389</u> |
| | <u>46,911</u> | <u>62,918</u> |
| | <u>65,911</u> | <u>62,918</u> |

The effective interest rate for the term deposits of the Group with initial terms of over three months to three years during the year ended 31 December 2019 was 3.57% (2018: 4.08%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2019, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

30 ACCOUNTS RECEIVABLE

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Accounts receivable from contracts with customers | 37,268 | 29,784 |
| Loss allowance | <u>(1,429)</u> | <u>(1,357)</u> |
| | <u>35,839</u> | <u>28,427</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

30 ACCOUNTS RECEIVABLE (continued)

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

| | As at 31 December | |
|--------------|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| 0 ~ 30 days | 15,582 | 11,200 |
| 31 ~ 60 days | 10,222 | 7,695 |
| 61 ~ 90 days | 5,035 | 4,201 |
| Over 90 days | 5,000 | 5,331 |
| | 35,839 | 28,427 |

Majority of the Group's accounts receivable were denominated in RMB.

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

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Online advertising customers and agencies | 11,797 | 11,944 |
| FinTech and cloud customers | 10,208 | 4,260 |
| Content production related customers | 5,260 | 5,400 |
| Third party platform providers | 5,259 | 3,877 |
| Others | 3,315 | 2,946 |
| | 35,839 | 28,427 |

Some online advertising customers and agencies are usually granted with a credit period within 90 days immediately following the month-end in which the relevant obligations under the relevant contracted advertising orders are delivered. Third party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.



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30 ACCOUNTS RECEIVABLE (continued)

Beginning from 1 January 2018, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The historical observed default rates are updated and changes in the forward-looking estimates are analysed at year end. For the year ended 31 December 2019 and 2018, information about the impairment of accounts receivable and the Group's exposure to credit risk and foreign currency risk can be found in Note 3.1.

As at 31 December 2019, the carrying amounts of accounts receivable approximated their fair values.

31 BANK BALANCES AND CASH

(a) Cash and cash equivalents

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Bank balances and cash | 60,907 | 38,696 |
| Term deposits and highly liquid investments with initial terms within three months | 72,084 | 59,118 |
| | <u>132,991</u> | <u>97,814</u> |

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2019 was 3.29% (2018: 3.59%).

Approximately RMB62,963 million (31 December 2018: RMB31,015 million) and RMB805 million (31 December 2018: RMB3,349 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in Mainland China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2019, restricted deposits held at bank of RMB2,180 million (31 December 2018: RMB2,590 million) were mainly denominated in RMB.



Notes to the Consolidated Financial Statements

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

As at 31 December 2019 and 2018, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

| | Number of issued and fully paid ordinary shares* | Share capital RMB'Million | Share premium RMB'Million | Shares held for share award schemes RMB'Million | Total RMB'Million |
|--|---|---------------------------------|---------------------------------|--|----------------------|
| At 1 January 2019 | 9,520,307,091 | – | 27,294 | (4,173) | 23,121 |
| Employee share option schemes: | | | | | |
| – value of employee services | – | – | 2,041 | – | 2,041 |
| – shares issued (Note (a)) | 1,612,741 | – | 272 | – | 272 |
| Employee share award schemes: | | | | | |
| – value of employee services | – | – | 7,303 | – | 7,303 |
| – shares withheld for share award schemes (Note (b)) | – | – | – | (1,186) | (1,186) |
| – shares allotted for share award schemes (Note (c)) | 34,182,154 | – | – | – | – |
| – shares vested from share award schemes and transferred to the grantees (Note (d)) | – | – | (1,357) | 1,357 | – |
| Repurchase and cancellation of shares (Note (e)) | (3,486,700) | – | (1,046) | – | (1,046) |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | – | – | 276 | – | 276 |
| Transfer of equity interests of subsidiaries to non-controlling interests | – | – | 488 | – | 488 |
| At 31 December 2019 | 9,552,615,286 | – | 35,271 | (4,002) | 31,269 |
| At 1 January 2018 | 9,499,056,887 | – | 22,204 | (3,970) | 18,234 |
| Employee share option schemes: | | | | | |
| – value of employee services | – | – | 1,983 | – | 1,983 |
| – shares issued (Note (a)) | 6,891,249 | – | 525 | – | 525 |
| Employee share award schemes: | | | | | |
| – value of employee services | – | – | 5,022 | – | 5,022 |
| – shares withheld for share award schemes (Note (b)) | – | – | – | (2,187) | (2,187) |
| – shares allotted for share award schemes (Note (c)) | 17,206,955 | – | – | – | – |
| – shares vested from share award schemes and transferred to the grantees (Note (d)) | – | – | (1,984) | 1,984 | – |
| Repurchase and cancellation of shares (Note (e)) | (2,848,000) | – | (783) | – | (783) |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | – | – | 327 | – | 327 |
| At 31 December 2018 | 9,520,307,091 | – | 27,294 | (4,173) | 23,121 |



Notes to the Consolidated Financial Statements

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32 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEMES (continued)

- * As at 31 December 2019, the total number of issued ordinary shares of the Company included 77,967,786 shares (31 December 2018: 63,275,620 shares) held under the Share Award Schemes.

Note:

- (a) During the year ended 31 December 2019, 1,612,741 Post-IPO options (2018: 6,891,249 Post-IPO options) with exercise prices ranging from HKD49.76 to HKD272.36 (2018: HKD31.70 to HKD272.36) were exercised.
- (b) During the year ended 31 December 2019, the Share Scheme Trust withheld 4,047,457 ordinary shares (2018: 6,839,643 ordinary shares) of the Company for an amount of approximately HKD1,332 million (equivalent to approximately RMB1,186 million) (2018: HKD2,550 million (equivalent to approximately RMB2,187 million)), which had been deducted from the equity.
- (c) During the year ended 31 December 2019, the Company allotted 34,182,154 ordinary shares (2018: 17,206,955 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.
- (d) During the year ended 31 December 2019, the Share Scheme Trust transferred 23,537,445 ordinary shares of the Company (2018: 31,446,159 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 34(b)).
- (e) During the year ended 31 December 2019, the Company repurchased 3,486,700 of its own shares from the market which were subsequently cancelled (2018: 2,848,000 shares). The shares were acquired at prices ranging from HKD312.40 to HKD351.00, with an average price of HKD332.90 per share (2018: ranging from HKD265.20 to HKD333.40, with an average price of HKD311.38 per share).



Notes to the Consolidated Financial Statements

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33 OTHER RESERVES

| | Capital reserves RMB'Million (Note (a)) | FVOCI RMB'Million | Investments in associates and joint ventures RMB'Million | Currency translation differences RMB'Million | PRC statutory reserves RMB'Million (Note (b)) | Share-based compensation reserves RMB'Million (Note (c)) | Others RMB'Million | Total RMB'Million |
|---|--|----------------------|--|---|---|--|-----------------------|----------------------|
| Balance at 1 January 2019 | (3,332) | (10,714) | 5,112 | 217 | 2,790 | 4,847 | 1,809 | 729 |
| Transfer of gains on disposal and deemed disposal of FVOCI to retained earnings (Note (d)) | - | (720) | - | - | - | - | - | (720) |
| Share of other changes in net assets of associates | - | - | 2,322 | - | - | - | - | 2,322 |
| Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates | - | - | (149) | - | - | - | - | (149) |
| Value of employee services: | | | | | | | | |
| – Employee share option schemes | - | - | - | - | - | 62 | - | 62 |
| – Employee share award schemes | - | - | - | - | - | 379 | - | 379 |
| Tax benefit from share-based payments | - | - | - | - | - | 529 | - | 529 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | (534) | - | - | - | - | - | - | (534) |
| Transfer of equity interests of subsidiaries to non-controlling interests | (4,849) | - | - | - | - | - | - | (4,849) |
| Recognition of financial liabilities in respect of the put option from business combination | (4,722) | - | - | - | - | - | - | (4,722) |
| Dilution of interests in subsidiaries | (355) | - | - | - | - | - | - | (355) |
| Profit appropriations to statutory reserves | - | - | - | - | 734 | - | - | 734 |
| Net gains from changes in fair value of FVOCI | - | 22,601 | - | - | - | - | - | 22,601 |
| Share of other comprehensive income of associates and joint ventures | - | - | 126 | - | - | - | - | 126 |
| Transfer of share of other comprehensive income to profit or loss upon deemed disposal of associates | - | - | (3) | - | - | - | - | (3) |
| Currency translation differences | - | - | - | 2,928 | - | - | - | 2,928 |
| Other fair value losses, net | - | - | - | - | - | - | (2,292) | (2,292) |
| Balance at 31 December 2019 | (13,792) | 11,167 | 7,408 | 3,145 | 3,524 | 5,817 | (483) | 16,786 |



Notes to the Consolidated Financial Statements

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33 OTHER RESERVES (continued)

| | Capital reserves | Available-for sale financial assets | Investments in associates and joint ventures | Currency translation differences | PRC statutory reserves | Share-based compensation reserves | Others | Total |
|---|---------------------------|---|---|--|------------------------------|---|-------------|-------------|
| | RMB'Million (Note (a)) | RMB'Million | FVOCI RMB'Million | RMB'Million | RMB'Million (Note (b)) | RMB'Million (Note (c)) | RMB'Million | RMB'Million |
| Balance at 31 December 2017, as previously reported | (2,999) | 31,152 | – | 2,228 | (3,464) | 2,273 | 4,170 | 35,158 |
| Adjustment on adoption of IFRS 9 | – | (31,152) | 14,942 | – | – | – | – | (16,210) |
| Balance at 1 January 2018 | (2,999) | – | 14,942 | 2,228 | (3,464) | 2,273 | 4,170 | 18,948 |
| Transfer of gains on disposal of FVOCI to retained earnings (Note (d)) | – | – | (9,561) | – | – | – | – | (9,561) |
| Share of other changes in net assets of associates | – | – | – | 2,861 | – | – | – | 2,861 |
| Value of employee services: | | | | | | | | |
| – Employee share option schemes | – | – | – | – | – | 63 | – | 63 |
| – Employee share award schemes | – | – | – | – | – | 466 | – | 466 |
| Tax benefit from share-based payments | – | – | – | – | – | 148 | – | 148 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | (877) | – | – | – | – | – | – | (877) |
| Transfer of equity interests of subsidiaries to non-controlling interests | (1,886) | – | – | – | – | – | – | (1,886) |
| Recognition of financial liabilities in respect of the put option from business combination | (406) | – | – | – | – | – | – | (406) |
| Dilution of interests in subsidiaries | 2,836 | – | – | – | – | – | – | 2,836 |
| Profit appropriations to statutory reserves | – | – | – | – | 517 | – | – | 517 |
| Net losses from changes in fair value of FVOCI | – | – | (16,095) | – | – | – | – | (16,095) |
| Share of other comprehensive income of associates and joint ventures | – | – | – | 23 | – | – | – | 23 |
| Currency translation differences | – | – | – | – | 3,681 | – | – | 3,681 |
| Other fair value gains, net | – | – | – | – | – | – | 11 | 11 |
| Balance at 31 December 2018 | (3,332) | – | (10,714) | 5,112 | 217 | 2,790 | 4,847 | 729 |



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33 OTHER RESERVES (continued)

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 profit (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 profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. 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 respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

- (c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 34(d)).
- (d) The Group has elected to recognise changes in the fair value of certain investments in equity instruments in other comprehensive income. These changes are accumulated with FVOCI reserve with equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.



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34 SHARE-BASED PAYMENTS

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes. As at 31 December 2019, there were no outstanding options exercisable of the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme III.

In respect of the Post-IPO Option Scheme IV which continues to be in force, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The exercise price must be in compliance with the requirement under the Rules Governing the Listing of Securities on the Stock Exchange. 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 period for the Post-IPO Option Scheme IV after the date of grant of option.



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34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(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 II | | Post-IPO Option Scheme III | | Post-IPO Option Scheme IV | | Total |
|----------------------------|---------------------------|-------------------|----------------------------|-------------|---------------------------|-------------------|--------------------|
| | Average | No. of | Average | No. of | Average | No. of | No. of |
| | exercise price | options | exercise price | options | exercise price | options | options |
| At 1 January 2019 | HKD185.25 | 51,499,010 | – | – | HKD374.52 | 36,277,234 | 87,776,244 |
| Granted | – | – | – | – | HKD374.01 | 26,249,615 | 26,249,615 |
| Exercised | HKD158.51 | (1,138,985) | – | – | HKD272.36 | (473,756) | (1,612,741) |
| Lapsed/forfeited | HKD148.90 | (1,225) | – | – | HKD320.56 | (314,900) | (316,125) |
| At 31 December 2019 | HKD185.86 | <u>50,358,800</u> | – | <u>–</u> | HKD375.36 | <u>61,738,193</u> | <u>112,096,993</u> |
| Exercisable as at | | | | | | | |
| 31 December 2019 | HKD172.30 | <u>33,855,872</u> | – | <u>–</u> | HKD363.68 | <u>10,997,475</u> | <u>44,853,347</u> |
| At 1 January 2018 | HKD179.90 | 55,510,248 | HKD31.70 | 2,500,000 | HKD273.80 | 9,155,860 | 67,166,108 |
| Granted | – | – | – | – | HKD405.73 | 27,723,850 | 27,723,850 |
| Exercised | HKD110.85 | (3,966,835) | HKD31.70 | (2,500,000) | HKD272.36 | (424,414) | (6,891,249) |
| Lapsed/forfeited | HKD136.67 | (44,403) | – | – | HKD298.36 | (178,062) | (222,465) |
| At 31 December 2018 | HKD185.25 | <u>51,499,010</u> | – | <u>–</u> | HKD374.52 | <u>36,277,234</u> | <u>87,776,244</u> |
| Exercisable as at | | | | | | | |
| 31 December 2018 | HKD160.50 | <u>22,419,156</u> | – | <u>–</u> | HKD274.86 | <u>1,760,025</u> | <u>24,179,181</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the year ended 31 December 2019, 3,506,580 options were granted to an executive director of the Company (2018: 3,215,800 options were granted to an executive director of the Company).

As a result of the options exercised during the year ended 31 December 2019, 1,612,741 ordinary shares (2018: 6,891,249 ordinary shares) were issued by the Company (Note 32). The weighted average price of the shares at the time these options were exercised was HKD339.07 per share (equivalent to approximately RMB301.04 per share) (2018: HKD399.37 per share (equivalent to approximately RMB325.67 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 2019 and 2018 are as follows:

| Expiry Date | Range of exercise price | Number of share options | |
|--|-------------------------|-------------------------|-------------------|
| | | 31 December 2019 | 31 December 2018 |
| 7 years commencing from the date of grant of options | HKD49.76 | – | 22,875 |
| (Post-IPO Option Scheme II and | HKD112.30~HKD174.86 | 22,761,755 | 23,504,535 |
| Post-IPO Option Scheme IV) | HKD225.44~HKD272.36 | 35,450,183 | 36,475,949 |
| | HKD334.20~HKD386.60 | 31,308,935 | 5,191,480 |
| | HKD403.16~HKD444.20 | 22,576,120 | 22,581,405 |
| | | 112,096,993 | 87,776,244 |

The outstanding share options as of 31 December 2019 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from ten months to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

34 SHARE-BASED PAYMENTS (continued)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2019 was HKD123.82 per share (equivalent to approximately RMB106.09 per share) (2018: HKD127.43 per share (equivalent to approximately RMB103.46 per share)).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

| | 2019 | 2018 |
|--|--------------------|-------------|
| Weighted average share price at the grant date | HKD373.33 | HKD405.00 |
| Risk free rate | 1.08%~2.07% | 1.77%~2.27% |
| Dividend yield | 0.23% | 0.24%~0.25% |
| Expected volatility (Note) | 30.00% | 30.00% |

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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

34 SHARE-BASED PAYMENTS (continued)

(b) Share award schemes

The Company has adopted three share award schemes (the “Share Award Schemes”) as of 31 December 2019, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2019 and 2018 are as follows:

| | Number of awarded shares | |
|---|--------------------------|--------------|
| | 2019 | 2018 |
| At beginning of the year | 50,247,895 | 63,636,254 |
| Granted | 53,096,782 | 20,940,149 |
| Lapsed/forfeited | (3,191,477) | (2,882,349) |
| Vested and transferred | (23,537,445) | (31,446,159) |
| At end of the year | 76,615,755 | 50,247,895 |
| Vested but not transferred as at the end of the year | 46,313 | 45,432 |

During the year ended 31 December 2019, 59,484 awarded shares were granted to five independent non-executive directors of the Company (2018: 39,500 awarded shares were granted to four independent non-executive directors of the Company).

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 2019 was HKD360.25 per share (equivalent to approximately RMB313.18 per share) (2018: HKD374.32 per share (equivalent to approximately RMB316.30 per share)).

The outstanding awarded shares as of 31 December 2019 were divided into one to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to five years from the grant date, and the remaining tranches will become exercisable in each subsequent year.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

34 SHARE-BASED PAYMENTS (continued)

(c) Employee investment schemes

To align the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. The EIS in 2011 was terminated in 2019. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2019 and 2018 were insignificant to the Group.

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or 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 respective board of directors of these subsidiaries at their sole discretion. The share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that some of them would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method. In addition, Halti S.A. ("Halti"), the parent company of Supercell Oy ("Supercell"), provides a put arrangement to the participants of the share-based compensation plans operated by Supercell for cash, the share-based compensation plans of Supercell are accounted for as cash-settled share-based payment transactions in the consolidated financial statement.

(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 consolidated income statement. As at 31 December 2019, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 95%~97% (31 December 2018: 88%~97%).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35 BORROWINGS

| | As at 31 December | |
|--|-------------------|----------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Included in non-current liabilities: | | |
| Non-current portion of long-term USD bank borrowings, unsecured (Note (a)) | 88,354 | 70,938 |
| Non-current portion of long-term EUR bank borrowings, unsecured (Note (a)) | 1,172 | – |
| Non-current portion of long-term RMB bank borrowings, unsecured (Note (a)) | 10,196 | 11,189 |
| Non-current portion of long-term HKD bank borrowings, unsecured (Note (a)) | 4,535 | 5,310 |
| | 104,257 | 87,437 |
| Included in current liabilities: | | |
| USD bank borrowings, unsecured (Note (b)) | 6,627 | 16,403 |
| HKD bank borrowings, unsecured (Note (b)) | 9,298 | 3,368 |
| RMB bank borrowings, unsecured (Note (b)) | 902 | 628 |
| RMB bank borrowings, secured (Note (b)) | 201 | – |
| Current portion of long-term USD bank borrowings, unsecured (Note (a)) | 140 | 5,628 |
| Current portion of long-term RMB bank borrowings, – unsecured (Note (a)) | 4,633 | 332 |
| – secured (Note (a)) | – | 475 |
| Current portion of long-term HKD bank borrowings, unsecured (Note (a)) | 894 | – |
| | 22,695 | 26,834 |
| | 126,952 | 114,271 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35 BORROWINGS (continued)

Note:

- (a) The aggregate principal amounts of long-term bank borrowings and applicable interest rates are as follows:

| | 31 December 2019 | | 31 December 2018 | |
|---------------------|---------------------|------------------------------|---------------------|--|
| | Amount (Million) | Interest rate (per annum) | Amount (Million) | Interest rate (per annum) |
| USD bank borrowings | USD12,685 | LIBOR + 0.70% ~ 1.27% | USD11,156 | LIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% |
| EUR bank borrowings | EUR150 | 0.52% | — | — |
| HKD bank borrowings | HKD6,070 | HIBOR + 0.70% ~ 0.80% | HKD6,070 | HIBOR + 0.70% ~ 0.85% |
| RMB bank borrowings | RMB14,829 | 4.18% ~ 5.70% | RMB11,996 | 4.18% ~ 9.00% |

The long-term bank borrowings were repayable as follows:

| | As at 31 December | |
|-----------------------|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Within 1 year | 5,667 | 6,435 |
| Between 1 and 2 years | 18,449 | 18,640 |
| Between 2 and 5 years | 85,808 | 68,797 |
| | 109,924 | 93,872 |

- (b) The aggregate principal amounts of short-term bank borrowings and applicable interest rates are as follows:

| | 31 December 2019 | | 31 December 2018 | |
|---------------------|---------------------|------------------------------|---------------------|------------------------------|
| | Amount (Million) | Interest rate (per annum) | Amount (Million) | Interest rate (per annum) |
| USD bank borrowings | USD950 | LIBOR + 0.5% | USD2,390 | LIBOR + 0.50% ~ 0.55% |
| HKD bank borrowings | HKD10,395 | HIBOR + 0.45% ~ 0.50% | HKD3,850 | HIBOR + 0.50% ~ 0.55% |
| RMB bank borrowings | RMB1,103 | 3.60% ~ 5.22% | RMB628 | 5.22% ~ 5.44% |

During the year ended 31 December 2019, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2019 have been detailed in Note 38.

As at 31 December 2019, the carrying amounts of borrowings approximated their fair values.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

36 NOTES PAYABLE

| | As at 31 December | |
|--|-------------------|---------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Included in non-current liabilities: | | |
| Non-current portion of long-term USD notes payable | 83,327 | 48,501 |
| Non-current portion of long-term HKD notes payable | – | 2,797 |
| | 83,327 | 51,298 |
| Included in current liabilities: | | |
| Current portion of long-term USD notes payable | 7,672 | 13,720 |
| Current portion of long-term HKD notes payable | 2,862 | – |
| | 10,534 | 13,720 |
| | 93,861 | 65,018 |

The aggregate principal amounts of USD notes payable and HKD notes payable were USD13,100 million (2018: USD9,100 million) and HKD3,200 million (2018: HKD3,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (2018: rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605%) per annum.

The notes payable were repayable as follows:

| | As at 31 December | |
|-----------------------|-------------------|---------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| Within 1 year | 10,534 | 13,720 |
| Between 1 and 2 years | – | 10,335 |
| Between 2 and 5 years | 24,335 | 10,258 |
| More than 5 years | 58,992 | 30,705 |
| | 93,861 | 65,018 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

36 NOTES PAYABLE (continued)

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

On 1 April 2019, the Company updated the Global Medium Term Note Programme (the “Programme”) to include, among other things, the Company’s recent corporate and financial information and increased the limit of aggregate principal amount of the notes under the Programme from USD10 billion to USD20 billion (or its equivalent in other currencies).

On 11 April 2019, the Company issued five tranches of senior notes under the Programme with an aggregate principal amount of USD6 billion as set out below.

| | Amount (USD'Million) | Interest Rate (per annum) | Due |
|--------------------------|-------------------------|------------------------------|------|
| 2024 Notes | 1,250 | 3.280% | 2024 |
| 2024 Floating Rate Notes | 750 | 3-month USD LIBOR + 0.910% | 2024 |
| 2026 Notes | 500 | 3.575% | 2026 |
| 2029 Notes | 3,000 | 3.975% | 2029 |
| 2049 Notes | 500 | 4.525% | 2049 |
| | <u>6,000</u> | | |

During the year ended 31 December 2019, the notes payable with an aggregate principal amount of USD2,000 million issued in April 2014 reached their maturity and were repaid in full by the Group.

As at 31 December 2019, the fair value of the notes payable amounted to RMB98,668 million (31 December 2018: RMB62,820 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

37 LONG-TERM PAYABLES

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Payables relating to media contents and running royalty fee for online games | 1,281 | 1,415 |
| Cash-settled share-based compensation payables (Note 34(d)) | 980 | – |
| Purchase consideration payables for investee companies | 298 | 2,018 |
| Others | 1,018 | 1,364 |
| | 3,577 | 4,797 |

38 OTHER FINANCIAL LIABILITIES

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Measured at amortised cost: | | |
| Redemption liability (Note (a)) | 8,703 | – |
| Measured at fair value: | | |
| Contingent consideration (Note (b)) | 1,873 | 3,302 |
| Financial guarantee contracts (Note 41(a)) | – | 1,164 |
| Interest rate swap (Note (c)) | 494 | 30 |
| Others | 29 | 10 |
| | 11,099 | 4,506 |

Note:

- (a) It mainly comprised redemption liability arising from put option arrangement with non-controlling shareholders of an acquired subsidiary of approximately RMB7,452 million (Note 41(a)).
- (b) It mainly comprised the contingent consideration in relation to the acquisition of equity interests from shareholders of a previously associate of the Group.
- (c) The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD4,025 million and HKD1,500 million (equivalent to approximately RMB29,423 million) (31 December 2018: USD11,311 million (equivalent to approximately RMB77,630 million)).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

39 ACCOUNTS PAYABLE

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

| | As at 31 December | |
|--------------|---------------------|-------------------------------|
| | 2019 RMB'Million | 2018 RMB'Million (Note) |
| 0 ~ 30 days | 67,054 | 63,615 |
| 31 ~ 60 days | 2,975 | 1,832 |
| 61 ~ 90 days | 1,442 | 1,149 |
| Over 90 days | 9,219 | 7,139 |
| | 80,690 | 73,735 |

Note:

To help investors better understand the Group's financial position, ageing analysis of accounts payable has been changed from recognition date to invoice date and the amounts of accrual payables were categorised within 30 days. The comparative figures have been restated to conform with the new presentation.

40 OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Staff costs and welfare accruals | 20,110 | 15,929 |
| Purchase of land use rights and construction related costs | 5,622 | 1,065 |
| Selling and marketing expense accruals | 4,772 | 3,038 |
| General and administrative expenses accruals | 1,932 | 1,650 |
| Purchase consideration payables for investee companies | 1,979 | 1,277 |
| Interests payable | 1,245 | 951 |
| Prepayments received from customers and others | 1,536 | 542 |
| Others (Note) | 7,978 | 8,860 |
| | 45,174 | 33,312 |

Note:

Others primary consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41 BUSINESS COMBINATION

(a) The acquisition of additional equity voting interest in an associate holding a majority interest in Supercell

On 21 October 2019 (the “Acquisition Date”), the Group acquired additional 44,000 ordinary voting shares in an associate, Halti, by converting the entire principal outstanding and relevant interest under the USD40 million convertible bond issued by Halti into ordinary voting shares (“Conversion”) when it became exercisable. As at the Acquisition Date, Halti held a majority interest in and controlled a mobile game developer Supercell. After the Conversion, the Group increased its equity voting interest in Halti from 50% to 51.2%, and considered it has sufficient power to control Halti. As a result, Halti was accounted for as a subsidiary of the Group upon the Conversion (“Step-up Acquisition”). The equity interest held under investment in an associate was re-measured to fair value and a remeasurement gain of approximately RMB1,550 million was recognised in profit or loss.

Goodwill of approximately RMB59,406 million was recognised as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose. The Group chose to record the non-controlling equity interests in Halti at fair value on Acquisition Date.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41 BUSINESS COMBINATION (continued)

(a) The acquisition of additional equity voting interest in an associate holding a majority interest in Supercell (continued)

The following table summarises the purchase consideration, fair value of assets acquired, liabilities assumed and the non-controlling interest recognised as at the Acquisition Date.

| | As at 21 October 2019 RMB'Million |
|--|---|
| Total consideration: | |
| Fair value of the previously held interests | |
| – <i>Equity interests in Halmi</i> | 17,735 |
| – <i>the Group's direct interests in Supercell</i> | 2,017 |
| Convertible bonds | 312 |
| Financial guarantee contracts | (977) |
| | <u>19,087</u> |
| Recognised amounts of identifiable assets acquired and liabilities assumed: | |
| Cash and cash equivalents | 1,901 |
| Restricted cash | 421 |
| Term deposits | 2,652 |
| Financial assets at fair value through profit or loss | 1,408 |
| Accounts receivable | 1,370 |
| Prepayments, deposits and other assets | 2,819 |
| Intangible assets | 14,644 |
| Other assets | 722 |
| Deferred revenue | (6,066) |
| Borrowings | (17,934) |
| Other financial liabilities | (12,389) |
| Long-term payables | (8,048) |
| Other liabilities | (564) |
| Deferred income tax liabilities | (2,898) |
| | <u>(21,962)</u> |
| Total identifiable net assets | (21,962) |
| Non-controlling interests | (18,357) |
| Goodwill | 59,406 |
| | <u>19,087</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41 BUSINESS COMBINATION (continued)

(a) The acquisition of additional equity voting interest in an associate holding a majority interest in Supercell (continued)

Note:

Prior to the Step-up Acquisition, Haldi has granted put option to non-controlling shareholders of Supercell, and the non-controlling shareholders shall have the right to request Haldi to purchase their vested shares at a pre-determined schedule. The put price was determined based on the financial performance of Supercell and a pre-determined formula that was set out in the respective shareholders' agreements. Accordingly, the put liability of approximately RMB7,452 million (Note 38) which was measured at the present value of the estimated future cash outflows was recognised upon the completion of Step-up Acquisition. The put liability was subsequently measured at amortised cost.

The Group's revenue for the year would be increased by not more than 5% and the results for the year would not be materially different should the Step-up Acquisition otherwise occur on 1 January 2019.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

(b) Other business combinations

During the year ended 31 December 2019, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions was approximately RMB1,280 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB389 million, RMB29 million and RMB920 million, respectively.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on 1 January 2019.

The related transaction costs of these business combinations were not material to the Group's consolidated financial statements.



Notes to the Consolidated Financial Statements

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42 CONSOLIDATED CASH FLOW STATEMENT

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

| | 2019 RMB'Million | 2018 RMB'Million (Note 2.2) |
|--|---------------------|-----------------------------------|
| Profit for the year | 95,888 | 79,984 |
| Adjustments for: | | |
| Income tax expense | 13,512 | 14,482 |
| Net gains on disposals and deemed disposals of investee companies | (8,492) | (2,932) |
| Dividend income | (1,014) | (686) |
| Depreciation of property, plant and equipment, investment properties and right-of-use assets | 15,623 | 8,423 |
| Amortisation of intangible assets and land use rights | 29,050 | 25,825 |
| Net (gains)/losses on disposals of intangible assets and property, plant and equipment | (85) | 47 |
| Interest income | (6,314) | (4,569) |
| Interest expense | 7,690 | 4,898 |
| Equity-settled share-based compensation expenses | 10,127 | 7,869 |
| Other expenses in relation to equity transactions of an investee company | — | 1,519 |
| Share of loss/(profit) of associates and joint ventures | 1,681 | (1,487) |
| Impairment provision for investments in associates and joint ventures | 3,823 | 16,397 |
| Net fair value gains on FVPL and other financial instruments | (11,158) | (29,757) |
| Impairment of intangible assets | 234 | 1,181 |
| Exchange gains | (77) | (228) |
| Changes in working capital: | | |
| Accounts receivable | (6,037) | (10,302) |
| Inventories | (394) | (29) |
| Prepayments, deposits and other receivables | (3,953) | (4,050) |
| Accounts payable | 6,445 | 22,955 |
| Other payables and accruals | 7,022 | (3,559) |
| Other tax liabilities | 193 | (19) |
| Deferred revenue | 12,054 | (505) |
| Cash generated from operating activities | 165,818 | 125,457 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 41(a), there were no material non-cash transactions during the year ended 31 December 2019.

(c) Net cash/(debt) reconciliation

This section sets out an analysis of net cash/(debt) and the movements in net cash/(debt) for each of the years presented.

Net debt

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Cash and cash equivalents | 132,991 | 97,814 |
| Term deposits and others | 72,270 | 69,305 |
| Borrowings – repayable within one year | (22,695) | (26,834) |
| Borrowings – repayable after one year | (104,257) | (87,437) |
| Notes payable – repayable within one year | (10,534) | (13,720) |
| Notes payable – repayable after one year | (83,327) | (51,298) |
| Net debt | (15,552) | (12,170) |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

42 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Net cash/(debt) reconciliation (continued)

| | Cash and cash equivalents RMB'Million | Term deposits and others RMB'Million | Borrowings due within 1 year RMB'Million | Borrowings due after 1 year RMB'Million | Notes payable due within 1 year RMB'Million | Notes payable due after 1 year RMB'Million | Total RMB'Million |
|--------------------------|--|---|---|--|--|---|----------------------|
| Net cash as at | | | | | | | |
| 1 January 2019 | 97,814 | 69,305 | (26,834) | (87,437) | (13,720) | (51,298) | (12,170) |
| Cash flows | 34,092 | (1,007) | 16,092 | (12,316) | 13,465 | (40,202) | 10,124 |
| Exchange impacts | 1,085 | 49 | (247) | (918) | (128) | (1,923) | (2,082) |
| Other non-cash movements | — | 3,923 | (11,706) | (3,586) | (10,151) | 10,096 | (11,424) |
| Net debt as at | | | | | | | |
| 31 December 2019 | <u>132,991</u> | <u>72,270</u> | <u>(22,695)</u> | <u>(104,257)</u> | <u>(10,534)</u> | <u>(83,327)</u> | <u>(15,552)</u> |
| Net cash as at | | | | | | | |
| 1 January 2018 | 105,697 | 42,540 | (15,696) | (82,094) | (4,752) | (29,363) | 16,332 |
| Cash flows | (10,090) | 24,811 | (2,724) | (7,237) | 4,666 | (32,547) | (23,121) |
| Exchange impacts | 2,207 | 1,954 | (1,559) | (3,598) | (957) | (2,011) | (3,964) |
| Other non-cash movements | — | — | (6,855) | 5,492 | (12,677) | 12,623 | (1,417) |
| Net debt as at | | | | | | | |
| 31 December 2018 | <u>97,814</u> | <u>69,305</u> | <u>(26,834)</u> | <u>(87,437)</u> | <u>(13,720)</u> | <u>(51,298)</u> | <u>(12,170)</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

43 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2019 and 2018 are analysed as follows:

| | As at 31 December | |
|--|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Contracted: | | |
| Construction/purchase of buildings and purchase of land use rights | 4,180 | 2,219 |
| Purchase of other property, plant and equipment | 331 | 357 |
| Capital investment in investees (Note) | 18,206 | 8,763 |
| | 22,717 | 11,339 |

Note:

In addition to the amounts disclosed above, on 31 December 2019, the Group has formed a consortium (the "Consortium") together with TME, a non-wholly owned subsidiary of the Company, and certain global financial investors to acquire 10% equity interests in Universal Music Group ("UMG") from its parent company, Vivendi S.A., at an enterprise value of EUR30 billion (the "Transaction"). The Consortium also has the option to purchase an additional 10% equity interests in UMG at the same enterprise value pursuant to the terms of the transaction documents. The Transaction is subject to regulatory approvals and other customary closing conditions.

(b) Other commitments

The future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements are as follows:

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| Contracted: | | |
| Not later than one year | 12,405 | 7,260 |
| Later than one year and not later than five years | 17,647 | 8,332 |
| Later than five years | 3,323 | 2,279 |
| | 33,375 | 17,871 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

44 RELATED PARTY TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 21 (Transactions with associates), Note 26 (Loans to investees and investees' shareholders) and Note 34 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2019 and 2018, and no other material balances with related parties as at 31 December 2019 and 2018.

45 SUBSEQUENT EVENTS

With respect to the outbreak of the coronavirus pandemic ("Pandemic"), the Group has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this report. The Group will keep continuous attention on the situation of the Pandemic and react actively to its impacts on the operation and financial position of the Group.

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

| | As at 31 December | |
|---|---------------------|---------------------|
| | 2019 RMB'Million | 2018 RMB'Million |
| ASSETS | | |
| Non-current assets | | |
| Intangible assets | 44 | 42 |
| Investments in subsidiaries | 76,024 | 60,770 |
| Contribution to Share Scheme Trust | 9 | 95 |
| | <u>76,077</u> | <u>60,907</u> |
| Current assets | | |
| Amounts due from subsidiaries | 74,605 | 52,078 |
| Prepayments, deposits and other receivables | 7 | 6 |
| Cash and cash equivalents | 52 | 63 |
| | <u>74,664</u> | <u>52,147</u> |
| Total assets | <u>150,741</u> | <u>113,054</u> |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Financial position of the Company (continued)

| | As at 31 December | |
|---|-------------------|----------------|
| | 2019 | 2018 |
| | RMB'Million | RMB'Million |
| EQUITY | | |
| Equity attributable to equity holders of the Company | | |
| Share capital | — | — |
| Share premium | 35,271 | 27,294 |
| Shares held for share award schemes | (4,002) | (4,173) |
| Other reserves (b) | 171 | (179) |
| Retained earnings (b) | 2,729 | 5,443 |
| Total equity | 34,169 | 28,385 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Notes payable | 83,327 | 51,298 |
| Other financial liabilities | 701 | 1,164 |
| | 84,028 | 52,462 |
| Current liabilities | | |
| Amounts due to subsidiaries | 18,773 | 17,454 |
| Other payables and accruals | 3,237 | 1,033 |
| Notes payable | 10,534 | 13,720 |
| | 32,544 | 32,207 |
| Total liabilities | 116,572 | 84,669 |
| Total equity and liabilities | 150,741 | 113,054 |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

46 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

| | Retained earnings RMB'Million | Other reserves RMB'Million |
|----------------------------------|----------------------------------|-------------------------------|
| At 1 January 2019 | 5,443 | (179) |
| Profit for the year | 5,591 | – |
| Dividends paid relating to 2018 | (8,305) | – |
| Currency translation differences | – | 350 |
| At 31 December 2019 | 2,729 | 171 |
| At 1 January 2018 | 8,371 | (531) |
| Profit for the year | 4,067 | – |
| Dividends paid relating to 2017 | (6,995) | – |
| Currency translation differences | – | 352 |
| At 31 December 2018 | 5,443 | (179) |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2019:

| Name | Place of establishment and nature of legal entity | Particulars of issued/paid-in capital | Proportion of equity interest held by the Group (%) | Principal activities and place of operation |
|---|--|---------------------------------------|---|---|
| Tencent Computer | Established in the PRC, limited liability company | RMB65,000,000 | 100% (Note (a)) | Provision of value-added services and Internet advertisement services in the PRC |
| Tencent Technology | Established in the PRC, wholly foreign owned enterprise | USD2,000,000 | 100% | Development of softwares and provision of information technology services in the PRC |
| Shenzhen Shiji Kaixuan Technology Company Limited | Established in the PRC, limited liability company | RMB11,000,000 | 100% (Note (a)) | Provision of Internet advertisement services in the PRC |
| Tencent Cyber (Tianjin) Company Limited | Established in the PRC, wholly foreign owned enterprise | USD90,000,000 | 100% | Development of softwares and provision of information technology services in the PRC |
| Tencent Asset Management Limited | Established in the British Virgin Islands, limited liability company | USD100 | 100% | Asset management in Hong Kong |
| Tencent Technology (Beijing) Company Limited | Established in the PRC, wholly foreign owned enterprise | USD1,000,000 | 100% | Development and sale of softwares and provision of information technology services in the PRC |
| Nanjing Wang Dian Technology Company Limited | Established in the PRC, limited liability company | RMB10,290,000 | 100% (Note (a)) | Provision of value-added services in the PRC |
| Beijing BIZCOM Technology Company Limited | Established in the PRC, limited liability company | RMB1,216,500,000 | 100% (Note (a)) | Provision of value-added services in the PRC |
| Beijing Starsinhand Technology Company Limited | Established in the PRC, limited liability company | RMB10,000,000 | 100% (Note (a)) | Provision of value-added services in the PRC |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

| Name | Place of establishment and nature of legal entity | Particulars of issued/paid-in capital | Proportion of equity interest held by the Group (%) | Principal activities and place of operation |
|---|---|---------------------------------------|---|--|
| Tencent Cyber (Shenzhen) Company Limited | Established in the PRC, wholly foreign owned enterprise | USD30,000,000 | 100% | Development of softwares in the PRC |
| Tencent Technology (Shanghai) Company Limited | Established in the PRC, wholly foreign owned enterprise | USD5,000,000 | 100% | Development of softwares and provision of information technology services in the PRC |
| Tencent Technology (Chengdu) Company Limited | Established in the PRC, wholly foreign owned enterprise | USD220,000,000 | 100% | Development of softwares and provision of information technology services in the PRC |
| Tencent Technology (Wuhan) Company Limited | Established in the PRC, wholly foreign owned enterprise | USD30,000,000 | 100% | Development of softwares and provision of information technology services in the PRC |
| Tencent Cloud Computing (Beijing) Company Limited | Established in the PRC, limited liability company | RMB142,500,000 | 100% (Note (a)) | Provision of information system integration services in the PRC |
| Morespark Limited | Established in Hong Kong, limited liability company | HKD1,000 | 100% | Investment holding and provision of online advertisement services in Hong Kong |
| Beijing Tencent Culture Media Company Limited | Established in the PRC, limited liability company | RMB5,000,000 | 100% | Design and production of advertisement in the PRC |
| Riot Games, Inc. | Established in the United States, limited liability company | USD1,306 | 100% | Development and operation of online games in the United States |



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

| Name | Place of establishment and nature of legal entity | Particulars of issued/paid-in capital | Proportion of equity interest held by the Group (%) | Principal activities and place of operation |
|------------------|--|---------------------------------------|---|---|
| China Literature | Established in the Cayman Islands, limited liability company | USD101,234 | 58%* | Provision of online literature services in the PRC |
| TME | Established in the Cayman Islands, limited liability company | USD275,872 | 49.36%* | Provision of online music entertainment services in the PRC |
| Supercell | Established in Finland, limited liability company | EUR2,500 | 66.24% | Development and operation of mobile games in Finland |

* on an outstanding basis

Note:

- As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, 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.
- The directors of the Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non-wholly owned subsidiaries is presented separately.
- All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company does not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (continued)

Note: (continued)

(d) Significant restrictions

As at 31 December 2019, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB121.98 billion were held in Mainland China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

(e) Consolidation of structured entities

As mentioned in Note (a) above and Note 34(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 34(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.

During the year ended 31 December 2019, the Company contributed approximately RMB1,186 million (2018: RMB2,187 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.



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, as amended |
| “2019 Share Award Scheme” | the share award scheme adopted by the Company on Adoption Date III, as amended |
| “2020 AGM” | the annual general meeting of the Company to be held on 13 May 2020 or any adjournment thereof |
| “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 |
| “Adoption Date III” | 25 November 2019, being the date on which the Company adopted the 2019 Share Award Scheme |
| “AI” | artificial intelligence |
| “Articles of Association” | the amended and restated articles of association of the Company adopted by special resolution passed on 14 May 2014 |
| “Audit Committee” | the audit committee of the Company |
| “Auditor” | PricewaterhouseCoopers, the auditor of the Company |
| “Awarded Share(s)” | the share(s) of the Company awarded under the Share Award Schemes |
| “Beijing BIZCOM” | Beijing BIZCOM Technology Company Limited |
| “Beijing Starsinhand” | Beijing Starsinhand Technology Company Limited |



Definition

| Term | Definition |
|----------------------------------|---|
| “Board” | the board of directors of the Company |
| “CG Code” | the corporate governance code as set out in Appendix 14 to the Listing Rules |
| “China Literature” | China Literature Limited, a non-wholly owned subsidiary of the Company, which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange |
| “Chongqing Tencent Information” | Chongqing Tencent Information Technology Company Limited |
| “Company” | Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange |
| “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 |
| “Cyber Tianjin” | Tencent Cyber (Tianjin) Company Limited |
| “DAU” | daily active user accounts |
| “DnF” | Dungeon and Fighter |
| “EBITDA” | earnings before interest, tax, depreciation and amortisation |
| “Eligible Person(s)” | any person(s) eligible to participate in the respective Share Award Schemes |
| “EPS” | earnings per share |



| Term | Definition |
|--------------------------------|--|
| “ESG Reporting Guide” | the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules |
| “EUR” | the lawful currency of the European Union |
| “FIFA” | International Federation of Association Football |
| “FinTech” | financial technology |
| “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 Tencent Technology” | Guangzhou Tencent Technology Company Limited |
| “Guian New Area Tencent Cyber” | Guian New Area Tencent Cyber Company Limited |
| “Hainan Network” | Hainan Tencent Network Information Technology Company Limited |
| “Halti” | Halti S.A., the consortium company formed under the laws of Luxembourg for the sole purpose of investment in Supercell |
| “HIBOR” | Hong Kong InterBank Offered Rate |
| “HKD” | the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region, the PRC |
| “IA” | internal audit department of the Company |



Definition

| Term | Definition |
|------------------------|---|
| “IAS” | International Accounting Standards |
| “IC” | internal control department of the Company |
| “IFRIC” | International Financial Reporting Interpretations Committee |
| “IFRS” | International Financial Reporting Standards |
| “IM” | Instant Messaging |
| “Investment Committee” | the investment committee of the Company |
| “IP” | intellectual property |
| “IPO” | initial public offering |
| “KPL” | King Pro League |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “LIBOR” | London InterBank Offered Rate |
| “LoL” | League of Legends |
| “M&A” | mergers and acquisitions |
| “MAU” | monthly active user accounts |
| “Meituan Dianping” | Meituan Dianping, a limited liability company incorporated in the Cayman Islands and the shares of which are listed on the Stock Exchange |
| “MIH TC” | MIH TC Holdings Limited |



| Term | Definition |
|------------------------------|--|
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules |
| “NASDAQ” | NASDAQ Global Select Market |
| “NBA” | National Basketball Association |
| “Nomination Committee” | the nomination committee of the Company |
| “O2O” | online-to-offline, or offline-to-online |
| “PC” | personal computer |
| “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 |
| “Post-IPO Option Scheme IV” | the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017 |
| “PRC” or “China” | the People’s Republic of China |
| “PRC CIT” | PRC corporate income tax as defined in the “Corporate Income Tax Law of the People’s Republic of China” |
| “Pre-IPO Option Scheme” | the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001 |
| “PUBG” | PlayerUnknown’s Battlegrounds |
| “R&D” | research and development |
| “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 |



Definition

| Term | Definition |
|--------------------------------|--|
| “Remuneration Committee” | the remuneration committee of the Company |
| “Riot Games” | Riot Games, Inc., a company established in the US |
| “RMB” | the lawful currency of the PRC |
| “Selected Participant(s)” | any Eligible Person(s) selected by the Board to participate in the Share Award Schemes |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| “Shanghai Tencent Information” | Shanghai Tencent Information Technology Company Limited |
| “Share Award Schemes” | the 2007 Share Award Scheme, the 2013 Share Award Scheme and the 2019 Share Award Scheme |
| “Share Subdivision” | with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and granting by the Stock Exchange of the listing of, and permission to deal in, the subdivided shares |
| “Shenzhen Tencent Information” | Shenzhen Tencent Information Technology Company Limited |
| “Shenzhen Tencent Network” | Shenzhen Tencent Network Information Technology Company Limited |
| “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 |



| Term | Definition |
|------------------------------|--|
| “SKT Co-operation Committee” | the co-operation committee established under the SKT CFC |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supercell” | Supercell Oy, a private company incorporated in Finland |
| “TCS CFC” | the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer |
| “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 |
| “TME” | Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands and listed on the New York Stock Exchange |
| “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 |



Definition

| Term | Definition |
|-------------------------|--|
| “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 |
| “Trust Deed III” | 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 2019 Share Award Scheme |
| “Trustee” | an independent trustee appointed by the Company for managing the Share Award Schemes |
| “United States” or “US” | the United States of America |
| “USD” | the lawful currency of the United States |
| “VAS” | value-added services |
| “Wang Dian” | Nanjing Wang Dian Technology Company Limited |
| “WFOEs” | Tencent Technology, Cyber Tianjin, Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network, Guangzhou Tencent Technology, Shenzhen Tencent Network and Guian New Area Tencent Cyber |





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