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)

smart communication inspires

智慧溝通 靈感無限

2018 Annual Report

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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

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

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

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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
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
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Wan Chai, Hong Kong

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2014 RMB'Million	2015 RMB'Million	2016 RMB'Million	2017 RMB'Million	**2018** **RMB'Million**
Revenues	78,932	102,863	151,938	237,760	**312,694**
Gross profit	48,059	61,232	84,499	116,925	**142,120**
Profit before income tax	29,013	36,216	51,640	88,215	**94,466**
Profit for the year	23,888	29,108	41,447	72,471	**79,984**
Profit attributable to equity holders of the Company	23,810	28,806	41,095	71,510	**78,719**
Total comprehensive income for the year	21,975	44,723	48,617	79,061	**67,760**
Total comprehensive income attributable to equity holders of the Company	21,891	44,416	48,194	78,218	**66,339**
Non-GAAP profit attributable to equity holders of the Company*	24,737	32,410	45,420	65,126	**77,469**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2014 RMB'Million	2015 RMB'Million	2016 RMB'Million	2017 RMB'Million	**2018** **RMB'Million**
Assets					
Non-current assets	95,845	151,440	246,745	376,226	**506,441**
Current assets	75,321	155,378	149,154	178,446	**217,080**
Total assets	171,166	306,818	395,899	554,672	**723,521**
Equity and liabilities					
Equity attributable to equity holders of the Company	80,013	120,035	174,624	256,074	**323,510**
Non-controlling interests	2,111	2,065	11,623	21,019	**32,697**
Total equity	82,124	122,100	186,247	277,093	**356,207**
Non-current liabilities	39,007	60,312	108,455	125,839	**164,879**
Current liabilities	50,035	124,406	101,197	151,740	**202,435**
Total liabilities	89,042	184,718	209,652	277,579	**367,314**
Total equity and liabilities	171,166	306,818	395,899	554,672	**723,521**

* Comparative figures have been restated retrospectively to conform with the presentation adopted in 2015, whereas, among others, we have extended the definition of non-GAAP adjustments to cover that of our material associates. We adopted the new presentation in order to more clearly illustrate our non-GAAP financial measures, and to be more consistent with what we believe to be industry practice.

Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2018 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2018 was RMB78,719 million, an increase of 10% compared with the results for the previous year. Basic and diluted EPS for the year ended 31 December 2018 were RMB8.336 and RMB8.228, respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the year ended 31 December 2018 was RMB77,469 million, an increase of 19% compared with the results for the previous year. Non-GAAP basic and diluted EPS for the year ended 31 December 2018 were RMB8.203 and RMB8.097, respectively.

BUSINESS REVIEW AND OUTLOOK

1. Company Strategic Highlights

2018 marked the 20th anniversary of the founding of the Group. Throughout our history, we have constantly been embracing changes in users' needs, technologies and market conditions to stay at the forefront of our industry. In October, we initiated a strategic organisational upgrade to extend our strengths in the Consumer Internet and to capture the opportunities of the Industrial Internet. This strategic upgrade is intended to enable us to drive the convergence of social, content and technology trends, and to better serve enterprises, as well as consumers.

During the year, we stepped up our investment in innovation and technologies to stay competitive in the evolving Internet industry. We enriched our social platforms with a broader portfolio of digital content, as well as online and offline services, thus deepening our connection with our users, advertisers, merchants and enterprise partners. Through these initiatives, we strengthened our market leadership in social, games, digital content, and payment, contributing to continuing growth across our core business segments.

We made the following key achievements in our core businesses:

Our social communications platforms, Weixin and QQ, represent the largest social communities in China in terms of MAU. The combined MAU of Weixin and WeChat increased to approximately 1,098 million by the end of 2018. Weixin further penetrated lower tier cities and covered a wider age group of users. On average, over 750 million Weixin users read friends' posts on Moments per day.

Mini Programs are now widely adopted by users and enterprises setting the industry trends for connecting online users to offline scenarios. DAU grew rapidly and daily visits per user increased by 54% year-on-year. Mini Programs cover more than 200 service sectors and connect with our users via multiple channels, including shortcuts in the chat interface, our in-app search function and offline Mini Programs QR Codes. In addition to connecting with online users, Mini Programs enable developers to achieve cross-platform development and instantaneous deployment for their products and services. We empower developers with cloud-based development kits, enhancing the development efficiency, particularly for long-tail developers. Daily visits to long-tail Mini Programs increased significantly, accounting for 43% of the total daily visits to Mini Programs.

Overall MAU of QQ increased to 807 million by the end of 2018. We stayed engaged with young users as QQ introduced innovative and AI-empowered features to make its chat experience more fun and interactive. We offer entertainment-oriented content in verticals including eSports, comics and live streaming services to cater to the entertainment needs of millennial users. In particular, we further increased the user engagement of QQ KanDian, a popular news feed service among young users, through enriching its content with video feeds.

We have built up a content ecosystem covering online games, literature, video, music, news and comics. For online games, we are the leading platform globally by revenue and users. Our technical strength supports the operation of multiple PC and mobile blockbuster game titles, serving hundreds of millions of active users every day. Internationally, our subsidiary Riot Games operates the highest-MAU PC game, League of Legends, and we operate the highest-MAU smart phone game, PUBG MOBILE. Through our partnerships with and investments in global leaders such as Epic Games (creator of Fortnite) and Supercell (creator of Clash of Clans), we support the innovation and growth of the global game industry. In China, our popular smart phone games expanded our user base and increased time spent. We have taken the lead in introducing the Healthy Gameplay System to assist parents in managing the amount of time their children spend playing games. We upgraded the system last September by introducing measures to strengthen real-name verification, and implementing game time limits for children players, as well as spending alerts to their parents. Our Tencent Game Guardian Platform enables parents to engage with their children and track their in-game activities online. We recently provided teachers access to this platform to enhance their engagement with their students who play games. These initiatives built a pilot case for the China game industry and, we believe, help position it for sustainable and healthy growth in the long run.

Leveraging our rich IP portfolio, we provide digital content to our users across online media platforms. Our total digital content subscription counts exceeded 100 million by the end of 2018, up 50% year-on-year. High quality content, better IP protection, enhanced streaming capabilities and convenience of mobile payment were the growth drivers for our digital content subscription business. Tencent Video is the leading online video streaming platform in China in terms of mobile DAU and subscriptions, generating the highest revenues in the online video market in China through subscriptions and advertising. TME is the leading online music entertainment platform in China, operating the country's most popular and innovative music apps — QQ Music, Kugou Music, Kuwo Music and WeSing. In December 2018, we listed TME on the New York Stock Exchange. News feeds, short videos and mini videos contributed substantially to traffic on our media and distribution platforms including Tencent News, QQ KanDian, Mobile QQ Browser and Weishi.

During 2018, we enhanced the monetisation potential of our platforms through connecting more advertisers, across more platforms, with more accurate user targeting capabilities. For social advertising, we increased our advertising inventory through adding the second ad unit in Weixin Moments, and we started to insert ad units into Mini Programs. For media advertising, we completed the system revamp of our news advertising in early 2018. Leveraging our enhanced recommendation algorithms, steady traffic growth and rising fill rates, our news feed business significantly grew its advertising revenues. Our video advertising outpaced the industry in terms of its revenue amount and revenue growth rate, due to the popularity of our content, especially self-commissioned content, and the strong growth in sponsorship advertising revenue. As part of the Company's strategic reorganisation, we merged our advertising sales teams to provide better marketing solutions, data analytics, and ad placement processes for our advertisers, thus enhancing their ROIs.

Payment is one of the key infrastructure platforms of the Company, enabling us and our merchant partners to complete transactions for online and offline services. We extended our market leadership as the leading mobile payment platform by active users and number of transactions in China. Our total daily payment transaction volume exceeded 1 billion for 2018, driven by rapid growth in commercial payments, which represented more than half of the number of transactions. Our commercial payment revenue more than doubled year-on-year in 2018. Our payment platform connects with tens of millions of merchants and monthly active merchants increased over 80% year-on-year in the fourth quarter of 2018. We boosted our payment penetration in the food and retail industries thanks to features such as our Mini Programs and Scan-to-Pay solution. In Hong Kong, we launched the first-of-its-kind cross-border mobile payment service in October 2018, which enables WeChat Pay Hong Kong users to conduct RMB-denominated transactions funded by Hong Kong dollars. This cross-border mobile payment service now covers approximately 1 million merchants in Mainland China, including taxi-hailing, food ordering, and high-speed railway ticketing services. The transaction volume of WeChat Pay Hong Kong increased more than 10 times year-on-year. We launched WeChat Pay Malaysia services in August, offering online transactions such as mobile credit top-ups, flight and bus ticket purchases, and offline transactions at retail outlets, such as supermarkets, fashion and beauty stores. Globally, we are expanding our footprint by supporting China outbound travelers to make cross-border payments in overseas destinations, and we now offer real-time tax refund services for Weixin Pay users in over 80 airports. Weixin Pay is now available in 49 markets outside Mainland China, supporting cross-border payment transactions in 16 currencies.

Building on our payment user base, we offer FinTech services to under-served consumers, conveniently and at low cost. LiCaiTong, our wealth management platform, helped manage over RMB600 billion of customer assets as of the end of 2018. WeBank, our associate with an online banking business, achieved rapid growth in the outstanding loan balance of its micro-loan product for consumers, WeiLiDai. WeBank also expanded its loan services to enterprises, serving the financing needs for small and micro businesses customers through WeiYeDai.

Tencent Cloud is the foundation for our smart industry solutions. We integrate our cloud computing technology with AI and data analytics capabilities, to assist the digital transformation of various industries. Our online security capabilities enhance the stability and reliability of our cloud solutions. During 2018, Tencent Cloud maintained market leadership in verticals such as online games and streaming video leveraging our industry know-how and solid infrastructure. We now serve over half of the China-based games companies and are expanding overseas. We expanded our customer base rapidly for Internet services via strategic partnership in verticals. Key categories include eCommerce, social media and community, handset manufacturer app stores and smart transportation. We have further expanded our presence in other key industries such as financial and retail sectors. We are the partner of choice for top banks including BOC, CCB and CMB. Majority of top online finance companies and insurance firms are our clients. Our retail cloud solutions build on our unique properties such as Official Accounts and Mini Programs to increase retailers' consumer engagement, enhance their marketing ROI via our consumer targeting and anti-fraud technologies, and upgrade internal operations using AI, LBS and big data technologies.

In addition to growing our core businesses organically, we make strategic investments in best-in-class companies so we can focus our management attention and company resources on our own core platforms, while capturing emerging opportunities in adjacent verticals through investee companies. We have invested in more than 700 companies. More than 100 investee companies were valued at over USD1 billion each. Among which, over 60 went public. We enrich our IP portfolio including games, video, music and literature via upstream investments, and broaden user reach and engagement via investments in vertical platforms. We work with businesses that can expand our offerings to meet evolving user needs, and accelerate the adoption of our enterprise services and products, such as O2O and smart retail companies, which has helped our payment service penetration and advertiser base expansion. And, we use investments as a tool for better understanding frontier technologies which will become important to our future, such as connected cars, Internet-facilitated healthcare, and quantum computing. Our investments have created value for our investee companies by offering them access to our large user base, and providing them infrastructure, technology and capital support to bolster their growth.

2. Company Financial Performance

In fiscal year 2018

Revenues increased by 32% year-on-year, primarily driven by FinTech services, social and video advertising, and digital content subscriptions and sales.

Operating profit increased by 8% year-on-year. Non-GAAP operating profit increased by 13% year-on-year.

Profit attributable to equity holders of the Company increased by 10% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 19%.

3. Company Business Highlights

Operating Information

	As at 31 December 2018	As at 31 December 2017	Year- on-year change	As at 30 September 2018	Quarter- on-quarter change
		(in millions, unless specified)			
MAU of QQ	**807.1**	783.4	3.0%	802.6	0.6%
Smart device MAU of QQ	**699.8**	683.0	2.5%	697.9	0.3%
Combined MAU of Weixin and WeChat	**1,097.6**	988.6	11.0%	1,082.5	1.4%
Smart device MAU of Qzone	**532.4**	554.0	-3.9%	531.1	0.2%
Fee-based VAS registered subscriptions	**160.3**	134.6	19.1%	154.1	4.0%

Communication and Social

- Weixin and WeChat: Combined MAU was 1,098 million, up by 11.0% year-on-year. Hundreds of millions of social videos are uploaded and shared on the Weixin platform every day. We enriched our user experience via a new video function that allows users to share 15-second mini video clips with AI-recommended background music with friends. WeChat Work, an enterprise application integrated with Weixin, allows companies to deepen engagement with customers, digitalise user profiles for data analytics, facilitate office administration and enhance internal communication. It is seeing particularly rapid adoption by large enterprises, providing a showcase for SMEs. Approximately 80% of the top 500 enterprises in China are now registered as WeChat Work corporate users.
- QQ: Smart device MAU was 699.8 million, up by 2.5% year-on-year. Smart device MAU for users aged 21 years or below increased by 13% year-on-year. We further increased young user stickiness by enhancing the video recording functions and news feed features. We launched AI-powered filters and stickers for video chat, increasing the number of short and mini videos shared by young users by over 50% year-on-year. For QQ KanDian, we added a bullet chatting function within video and enhanced video feed recommendation algorithms, boosting the click-through volume and increasing user time spent. QQ KanDian daily video views rose over 300% year-on-year.

Online Games

For 2018, our smart phone games business achieved RMB77.8 billion revenues (including smart phone games revenues attributable to our social networks business), up 24% year-on-year; for the fourth quarter, it achieved RMB19.0 billion revenues, up 12% year-on-year. We released 9 licensed games in the fourth quarter, most of which were role playing games. The industry regulator re-started issuing game monetisation license ("banhao") approvals in December 2018, after a nine-month suspension. A total of 8 Tencent games (including 7 smart phone games and 1 PC game) have received approval so far, including role playing games, strategy, casual and functional genres. Since there is a sizeable backlog for the banhao applications in the industry, our scheduled game releases will initially be slower than in some prior years. We have implemented our upgraded Healthy Gameplay System in 39 smart phone games, including our most popular titles such as Honour of Kings, QQ Speed Mobile, Cross Fire Mobile, Naruto OL Mobile and MT4. The system has resulted in minors spending significantly less time in the affected games, but immaterial impact on time spent by adult players.

In China, we increased our market share in smart phone games in terms of active users. We enhanced user engagement across multiple genres. For action titles, QQ Speed Mobile's anniversary promotions increased its DAU sequentially. Cross Fire Mobile introduced a season pass to encourage in-game engagement. For role playing games, we launched several IP-based games that attracted fans of popular anime and comic franchises such as Battle through the Heavens, Naruto OL Mobile and Samurai Spirits. For MOBA, Honour of Kings organised its flagship eSports event KPL Fall Final in December, attracting over 75 million unique viewers for the live broadcast. In international markets, PUBG MOBILE achieved breakout success, becoming the most popular game globally by MAU, and was named the Best Game of 2018 by Google Play. Our investee companies' success added to our proven track record of working with category leaders in the games industry. For example, Supercell's new MOBA game Brawl Stars was the most downloaded game in 50 markets after its global launch in December 2018. And, Epic Games' Fortnite continued its phenomenal success, topping US iOS Grossing Chart in the fourth quarter. Sea's first self-developed game, Free Fire, was the fourth most downloaded game globally in 2018, according to App Annie.

Our PC client games business achieved approximately RMB50.6 billion revenues, down 8% year-on-year, for 2018, and approximately RMB11.2 billion revenues for the fourth quarter, down 13% year-on-year as users continue to shift time to mobile. League of Legends introduced its first season pass and increased average user time spent, with active users growing sequentially after a China team won the World Championship in November 2018. We released a sequel to NBA2K in China, significantly expanding the total user base of this popular basketball franchise. We launched two new internally developed PC games, Iris Fall and Bladed Fury, to better serve niche audience interests.

Digital Content

Our fee-based VAS subscriptions were up by 19.1% year-on-year to 160.3 million, mainly attributable to growth in video and music subscriptions. Tencent Video expanded its subscription counts to 89 million, up 58% year-on-year, driven by premium content and cross-promotions. We released sequels to popular self-commissioned IPs, extending the longevity and monetisation opportunities of these IPs. These included Candle in the Tomb Season 3 in the drama category, the Land of Warriors Season 2 in Chinese anime, and Once Upon A Bite in documentary (whose related IP program, Flavorful Origins, we licensed to Netflix for distribution outside China). We upgraded our VIP loyalty program to offer subscribers different tiers of privileges. We maintained healthy engagement trends with video views per DAU up over 40% year-on-year, as consumers watched more short form videos. We are the leading streaming platform for sports fans in China, featuring 40 top global sports IPs, including the 4 major sports leagues in the US. We distribute sports content in live programs, news feeds and short videos formats across Tencent Sports, Tencent News, Tencent Video, Mobile QQ Browser and WeiShi. Since we began licensing NBA live streaming rights in 2015, we have expanded the total audience size for NBA games in China. Over the period, average daily unique visitors per live-streamed NBA game in China have tripled.

Online Advertising

Our online advertising business achieved RMB58.1 billion revenues, up 44% year-on-year, for 2018, and RMB17.0 billion revenues, up 38% year-on-year, for the fourth quarter. Social and others advertising grew to RMB39.8 billion, up 55% year-on-year for the full year, and RMB11.8 billion, up 44% year-on-year for the fourth quarter, driven by Weixin Moments, Mini Programs, QQ KanDian and our mobile advertising network. We received positive feedback from advertisers after the launch of the second daily ad unit for Moments, and the overall ad fill rates remained high. About 50% of Moments DAU were shown the second ad unit, and Moments ad click-through rates remained at healthy levels. Media advertising revenues amounted to RMB18.3 billion, up 23% for the full year, and RMB5.2 billion, up 26% for the fourth quarter. Among which, video advertising revenues increased by 34% year-on-year for 2018 and 21% year-on-year for the fourth quarter. The increase in the fourth quarter was driven by more video views and sponsorship advertising for our popular self-commissioned variety shows. Our news advertising revenues picked up year-on-year in the latter half of the year, recovering from our system revamp. Media feed advertising revenues grew by over 10 times year-on-year.

Others

Our other businesses grew revenues by 80% year-on-year for the year 2018, primarily contributed by FinTech and cloud services. The increase in FinTech revenues was driven by our take-rate on commercial transactions collected from merchants, cash withdrawal fees and credit card repayment charges collected from users, and the service fees from financial institutions for the distribution of FinTech products such as WeiLiDai and the wealth management products on our LiCaiTong platform. In January 2019, we completed the transition to the centralised clearing and settlement system and moved all custodian cash to the accounts of the People's Bank of China.

As we added more use cases online and offline for our payment services, our payment active users increased robustly year-on-year. Users' transaction frequency and value per transaction also increased. Weixin Pay launched a new user interface enabling easier access to new features including virtual subsidiary cards for parents and children. We enhanced account management tools for merchants, including cash register, book-keeping and revenue sharing settlement functions. LiCaiTong enlarged its user base, reaching 100 million accumulated users by end of 2018. We expanded our FinTech services by rolling out LingQianTong, which enables users to invest the unused cash balance in their Weixin Pay accounts in funds.

Our cloud revenues increased by over 100% to RMB9.1 billion for the year 2018. Paying customers more than doubled year-on-year in the fourth quarter of 2018. Tencent Cloud's global infrastructure covered 25 regions and operated 53 availability zones as of the end of 2018. We developed and launched new IaaS and PaaS products in the fourth quarter. In addition to strengthening our leadership in games and video verticals, we further promoted our presence in financial and retail cloud services, leveraging our AI and security capabilities.

4. Company Outlook and Strategies for 2019

Looking ahead, we will invest in core infrastructure and frontier technologies to embrace the trend of the Industrial Internet, while continuing to drive the evolution of the Consumer Internet.

We will enable our enterprise partners to better connect with our users via an expanding, open and connected ecosystem. Utilising our innovation and technology capabilities, we seek to assist a range of industries in undergoing digital upgrades and transformation.

For our social communications platforms, we will strengthen connections between our users with digital content, as well as online and offline services. We will also enhance connections with enterprises leveraging Mini Programs, Weixin Pay and WeChat Work. For online games, we will strengthen our game portfolio through enhancing our internal R&D capability and external partnerships. We will further expand our overseas business through exploring new game genres and strengthening our overseas publishing capability. For digital content, we will continue to invest and grow our subscription business. For advertising, we will strengthen our user targeting capabilities to further increase our ROIs to advertisers and relevance to consumers. For FinTech, we will drive innovation in our payment product development and add new payment use cases. We will also expand our FinTech solutions and product portfolio to cater to the wealth management and financial needs of our users. For cloud, we will integrate our advanced cloud computing capability, data analytics, AI and security solutions, to develop customised solutions for various industries such as retail, financial, transportation, healthcare and education. We will assist enterprises in upgrading and innovating for the digital age.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD1.00 per share (2017: HKD0.88 per share) for the year ended 31 December 2018, subject to the approval of the shareholders at the 2019 AGM. Such proposed dividend will be payable on 31 May 2019 to the shareholders whose names appear on the register of members of the Company on 22 May 2019.

APPRECIATION

On behalf of the Board, I would like to thank our staff and management team for their efforts, dedication and devotion to the Group. I would also like to express our sincere gratitude to our shareholders and stakeholders for their unwavering support to the Group. We are confident that our commitment to build an ecosystem to enhance our user experience, and the strategic upgrade to step into the Industrial Internet era will create value for our shareholders.

Ma Huateng
Chairman

Hong Kong, 21 March 2019

YEAR ENDED 31 DECEMBER 2018 COMPARED TO YEAR ENDED 31 DECEMBER 2017

The following table sets forth the comparative figures for the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
	(RMB in millions)	
Revenues	**312,694**	237,760
Cost of revenues	**(170,574)**	(120,835)
Gross profit	**142,120**	116,925
Interest income	**4,569**	3,940
Other gains, net	**16,714**	20,140
Selling and marketing expenses	**(24,233)**	(17,652)
General and administrative expenses	**(41,522)**	(33,051)
Operating profit	**97,648**	90,302
Finance costs, net	**(4,669)**	(2,908)
Share of profit of associates and joint ventures	**1,487**	821
Profit before income tax	**94,466**	88,215
Income tax expense	**(14,482)**	(15,744)
Profit for the year	**79,984**	72,471
Attributable to:		
Equity holders of the Company	**78,719**	71,510
Non-controlling interests	**1,265**	961
	79,984	72,471
Non-GAAP profit attributable to equity holders of the Company	**77,469**	65,126

Revenues. Revenues increased by 32% to RMB312.7 billion for the year ended 31 December 2018 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2018 and 2017:

	Year ended 31 December			
	2018		2017	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**176,646**	**56%**	153,983	65%
Online advertising	**58,079**	**19%**	40,439	17%
Others	**77,969**	**25%**	43,338	18%
Total revenues	**312,694**	**100%**	237,760	100%

– Revenues from our VAS business increased by 15% to RMB176.6 billion for the year ended 31 December 2018 on a year-on-year basis. Online games revenues grew by 6% to RMB104.0 billion. The increase primarily reflected growth in revenues from our existing smart phone games such as Honour of Kings and QQ Speed Mobile, and new titles such as MU Awakening and QQ Dancers Mobile. Revenues from our PC client games decreased mainly due to users' time shift to smart phone games although some individual PC games performed robustly. Social networks revenues increased by 30% to RMB72,654 million. The increase was mainly due to higher contributions from our digital content services such as live broadcast services and video streaming subscriptions, as well as from in-game virtual item sales.

– Revenues from our online advertising business increased by 44% to RMB58,079 million for the year ended 31 December 2018 on a year-on-year basis. Social and others advertising revenues increased by 55% to RMB39,773 million. The increase mainly reflected higher advertising revenues derived from Weixin Moments, Mini Programs and our mobile advertising network. Media advertising revenues grew by 23% to RMB18,306 million. The increase was primarily driven by greater advertising revenues from Tencent Video.

– Revenues from our other businesses increased by 80% to RMB77,969 million for the year ended 31 December 2018 on a year-on-year basis. The increase was mainly due to revenue growth from our FinTech and cloud services.

Cost of revenues. Cost of revenues increased by 41% to RMB170.6 billion for the year ended 31 December 2018 on a year-on-year basis. The increase primarily reflected greater content costs, costs of FinTech services, and channel costs. As a percentage of revenues, cost of revenues increased to 55% for the year ended 31 December 2018 from 51% for the year ended 31 December 2017. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2018 and 2017:

	Year ended 31 December			
	2018		2017	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**73,961**	**42%**	61,389	40%
Online advertising	**37,273**	**64%**	25,586	63%
Others	**59,340**	**76%**	33,860	78%
Total cost of revenues	**170,574**		120,835	

– Cost of revenues for our VAS business increased by 20% to RMB73,961 million for the year ended 31 December 2018 on a year-on-year basis. The increase was mainly due to greater content costs for services and products including live broadcast, video streaming subscriptions and online games, as well as higher channel costs for our smart phone games.

– Cost of revenues for our online advertising business increased by 46% to RMB37,273 million for the year ended 31 December 2018 on a year-on-year basis. The increase was primarily driven by greater content costs, traffic acquisition costs and advertising commissions.

– Cost of revenues for our other businesses increased by 75% to RMB59,340 million for the year ended 31 December 2018 on a year-on-year basis, mainly reflecting the increased scale of our FinTech and cloud services.

Other gains, net. We recorded net other gains totalling RMB16,714 million for the year ended 31 December 2018. There were increases in valuations for certain investee companies, including a fair value gain from Meituan Dianping upon its IPO, partly offset by impairment provisions for certain other investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 37% to RMB24,233 million for the year ended 31 December 2018 on a year-on-year basis. The increase was mainly driven by greater marketing spending on services and products such as digital content services, FinTech services and smart phone games. As a percentage of revenues, selling and marketing expenses increased to 8% for the year ended 31 December 2018 from 7% for the year ended 31 December 2017.

General and administrative expenses. General and administrative expenses increased by 26% to RMB41,522 million for the year ended 31 December 2018 on a year-on-year basis. The increase mainly reflected greater R&D expenses and staff costs as a result of our expanded business volume. As a percentage of revenues, general and administrative expenses decreased to 13% for the year ended 31 December 2018 from 14% for the year ended 31 December 2017.

Finance costs, net. Net finance costs increased by 61% to RMB4,669 million for the year ended 31 December 2018 on a year-on-year basis. The increase primarily reflected greater interest expenses driven by higher amount of indebtedness.

Income tax expense. Income tax expense decreased by 8% to RMB14,482 million for the year ended 31 December 2018 on a year-on-year basis. The decrease was mainly due to 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 10% to RMB78,719 million for the year ended 31 December 2018 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 19% to RMB77,469 million for the year ended 31 December 2018.

FOURTH QUARTER OF 2018 COMPARED TO FOURTH QUARTER OF 2017

The following table sets forth the comparative figures for the fourth quarter of 2018 and the fourth quarter of 2017:

	Unaudited Three months ended	
	31 December 2018	31 December 2017
	(RMB in millions)	
Revenues	**84,896**	66,392
Cost of revenues	**(49,744)**	(34,897)
Gross profit	**35,152**	31,495
Interest income	**1,350**	1,156
Other (losses)/gains, net	**(2,139)**	7,906
Selling and marketing expenses	**(5,730)**	(6,022)
General and administrative expenses	**(11,345)**	(8,811)
Operating profit	**17,288**	25,724
Finance costs, net	**(1,372)**	(859)
Share of profit/(loss) of associates and joint ventures	**16**	(120)
Profit before income tax	**15,932**	24,745
Income tax expense	**(1,906)**	(3,123)
Profit for the period	**14,026**	21,622
Attributable to:		
Equity holders of the Company	**14,229**	20,797
Non-controlling interests	**(203)**	825
	14,026	21,622
Non-GAAP profit attributable to equity holders of the Company	**19,730**	17,454

Revenues. Revenues increased by 28% to RMB84,896 million for the fourth quarter of 2018 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2018 and the fourth quarter of 2017:

	Unaudited			
	Three months ended			
	31 December 2018		31 December 2017	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**43,651**	**51%**	39,947	60%
Online advertising	**17,033**	**20%**	12,361	19%
Others	**24,212**	**29%**	14,084	21%
Total revenues	**84,896**	**100%**	66,392	100%

– Revenues from our VAS business increased by 9% to RMB43,651 million for the fourth quarter of 2018 on a year-on-year basis. Online games revenues were RMB24,199 million, broadly stable compared to the fourth quarter of 2017. Social networks revenues grew by 25% to RMB19,452 million. The increase mainly reflected growth in revenues from digital content services such as live broadcast services and video streaming subscriptions.

– Revenues from our online advertising business increased by 38% to RMB17,033 million for the fourth quarter of 2018 on a year-on-year basis. Social and others advertising revenues increased by 44% to RMB11,846 million, primarily contributed by an increase in advertising revenues derived from Weixin Moments, Mini Programs and QQ KanDian. Media advertising revenues grew by 26% to RMB5,187 million, mainly reflecting contributions from our media platforms such as Tencent Video and Tencent News.

– Revenues from our other businesses increased by 72% to RMB24,212 million for the fourth quarter of 2018 on a year-on-year basis. The increase mainly reflected higher revenues from our FinTech and cloud services, as well as film and television production business.

Cost of revenues. Cost of revenues increased by 43% to RMB49,744 million for the fourth quarter of 2018 on a year-on-year basis. The increase mainly reflected greater content costs, costs of FinTech services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 59% for the fourth quarter of 2018 from 53% for the fourth quarter of 2017. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2018 and the fourth quarter of 2017:

	Unaudited			
	Three months ended			
	31 December 2018		31 December 2017	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**20,330**	**47%**	16,268	41%
Online advertising	**10,800**	**63%**	7,759	63%
Others	**18,614**	**77%**	10,870	77%
Total cost of revenues	**49,744**		34,897	

– Cost of revenues for our VAS business increased by 25% to RMB20,330 million for the fourth quarter of 2018 on a year-on-year basis. The increase was primarily due to greater content costs for video streaming subscriptions, live broadcast services and online games. Channel costs for our smart phone games also increased.

– Cost of revenues for our online advertising business increased by 39% to RMB10,800 million for the fourth quarter of 2018 on a year-on-year basis. The increase was mainly due to greater content costs and advertising commissions.

– Cost of revenues for our other businesses increased by 71% to RMB18,614 million for the fourth quarter of 2018 on a year-on-year basis. The increase was primarily driven by the scale expansion of our FinTech and cloud services, as well as film and television production business.

Other (losses)/gains, net. We recorded net other losses of RMB2,139 million for the fourth quarter of 2018, which primarily consisted of one-off expenses in respect of the issuance of ordinary shares to strategic partners recognised by TME, as well as impairment provisions for certain investee companies, reflecting revisions of their financial outlook and changes in the market environment.

Selling and marketing expenses. Selling and marketing expenses decreased by 5% to RMB5,730 million for the fourth quarter of 2018 on a year-on-year basis. The decrease was primarily driven by the reduction of advertising and promotion expenses due to internal initiatives to reduce less effective marketing campaigns. As a percentage of revenues, selling and marketing expenses decreased to 7% for the fourth quarter of 2018 from 9% for the fourth quarter of 2017.

General and administrative expenses. General and administrative expenses increased by 29% to RMB11,345 million for the fourth quarter of 2018 on a year-on-year basis. The increase mainly reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 13% for the fourth quarter of 2018, broadly stable compared to the fourth quarter of 2017.

Finance costs, net. Net finance costs increased by 60% to RMB1,372 million for the fourth quarter of 2018 on a year-on-year basis. The increase was primarily due to greater interest expenses as a result of higher amount of indebtedness.

Income tax expense. Income tax expense decreased by 39% to RMB1,906 million for the fourth quarter of 2018 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 decreased by 32% to RMB14,229 million for the fourth quarter of 2018 on a year-on-year basis. The decrease was greatly affected by non-cash expenses related to capital raising at a subsidiary in the fourth quarter of 2018, coupled with substantial deemed disposal gains relating to the capital activities of certain investee companies (such as the IPOs of Yixin, Sea and Sogou) in the fourth quarter of 2017. Non-GAAP profit attributable to equity holders of the Company increased by 13% to RMB19,730 million.

FOURTH QUARTER OF 2018 COMPARED TO THIRD QUARTER OF 2018

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

	Unaudited	
	Three months ended	
	31 December 2018	30 September 2018
	(RMB in millions)	
Revenues	**84,896**	80,595
Cost of revenues	**(49,744)**	(45,115)
Gross profit	**35,152**	35,480
Interest income	**1,350**	1,082
Other (losses)/gains, net	**(2,139)**	8,762
Selling and marketing expenses	**(5,730)**	(6,573)
General and administrative expenses	**(11,345)**	(10,890)
Operating profit	**17,288**	27,861
Finance costs, net	**(1,372)**	(1,492)
Share of profit of associates and joint ventures	**16**	264
Profit before income tax	**15,932**	26,633
Income tax expense	**(1,906)**	(3,228)
Profit for the period	**14,026**	23,405
Attributable to:		
Equity holders of the Company	**14,229**	23,333
Non-controlling interests	**(203)**	72
	14,026	23,405
Non-GAAP profit attributable to equity holders of the Company	**19,730**	19,710

Revenues. Revenues increased by 5% to RMB84,896 million for the fourth quarter of 2018 on a quarter-on-quarter basis.

– Revenues from our VAS business were RMB43,651 million for the fourth quarter of 2018, broadly stable compared to the previous quarter. Online games revenues decreased by 6% to RMB24,199 million. The decrease mainly reflected lower revenues from our PC client games such as DnF. Social networks revenues increased by 7% to RMB19,452 million. The increase was primarily driven by revenue growth from our digital content services such as live broadcast services and video streaming subscriptions.

– Revenues from our online advertising business increased by 5% to RMB17,033 million for the fourth quarter of 2018. Social and others advertising revenues grew by 6% to RMB11,846 million. The increase mainly reflected higher advertising revenues derived from Weixin. Media advertising revenues increased by 2% to RMB5,187 million.

– Revenues from our other businesses increased by 19% to RMB24,212 million for the fourth quarter of 2018. The increase was mainly due to growth in revenues from film and television production business, FinTech and cloud services.

Cost of revenues. Cost of revenues increased by 10% to RMB49,744 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 59% for the fourth quarter of 2018 from 56% for the third quarter of 2018.

– Cost of revenues for our VAS business increased by 6% to RMB20,330 million for the fourth quarter of 2018. The increase was primarily driven by greater content costs for our live broadcast services, music services and smart phone games.

– Cost of revenues for our online advertising business increased by 5% to RMB10,800 million for the fourth quarter of 2018. The increase was mainly due to greater advertising commissions and traffic acquisition costs, partly offset by lower content costs.

– Cost of revenues for our other businesses increased by 19% to RMB18,614 million for the fourth quarter of 2018. The growth primarily derived from our FinTech services, film and television production business and cloud services.

Other (losses)/gains, net. We recorded net other losses of RMB2,139 million for the fourth quarter of 2018, which primarily consisted of one-off expenses in respect of the issuance of ordinary shares to strategic partners recognised by TME, as well as impairment provisions for certain investee companies, reflecting revisions of their financial outlook and changes in the market environment.

Selling and marketing expenses. Selling and marketing expenses decreased by 13% to RMB5,730 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The decrease mainly reflected lower advertising and promotion expenses, resulting from internal initiatives to reduce less effective marketing campaigns.

General and administrative expenses. General and administrative expenses increased by 4% to RMB11,345 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The increase mainly reflected greater spending on staff fringe benefits and conference fees.

Income tax expense. Income tax expense decreased by 41% to RMB1,906 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The decrease was primarily driven by reversals of income tax provisions resulting from the entitlements of preferential tax treatments and benefits, partly offset by greater withholding tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 39% to RMB14,229 million for the fourth quarter of 2018 on a quarter-on-quarter basis. The decrease was greatly affected by non-cash expenses related to capital raising at a subsidiary in the fourth quarter of 2018 versus higher fair value gains from certain investee companies (including a fair value gain from Meituan Dianping upon its IPO) in the third quarter of 2018. Non-GAAP profit attributable to equity holders of the Company was RMB19,730 million, essentially flat quarter-on-quarter.

OTHER FINANCIAL INFORMATION

	Unaudited				
	Three months ended			**Year ended**	
	31 December 2018	30 September 2018	31 December 2017	**31 December 2018**	31 December 2017
	(RMB in millions, unless specified)				
EBITDA (a)	**27,180**	27,568	23,278	**110,404**	89,724
Adjusted EBITDA (a)	**29,701**	29,577	25,127	**118,273**	95,861
Adjusted EBITDA margin (b)	**35%**	37%	38%	**38%**	40%
Interest and related expenses	**1,345**	1,298	839	**4,898**	3,060
Net (debt)/cash (c)	**(12,170)**	(29,227)	16,332	**(12,170)**	16,332
Capital expenditures (d)	**4,564**	5,974	4,975	**23,941**	13,585

Note:

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

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

(c) Net (debt)/cash 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 media contents, game licenses and other contents).

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

	Unaudited				
	Three months ended			Year ended	
	31 December	30 September	31 December	**31 December**	
	2018	2018	2017	**2018**	2017
	(RMB in millions, unless specified)				
Operating profit	**17,288**	27,861	25,724	**97,648**	90,302
Adjustments:					
Interest income	**(1,350)**	(1,082)	(1,156)	**(4,569)**	(3,940)
Other losses/(gains), net	**2,139**	(8,762)	(7,906)	**(16,714)**	(20,140)
Depreciation of property, plant and equipment and investment properties	**2,520**	2,321	1,376	**8,423**	4,880
Amortisation of intangible assets	**6,583**	7,230	5,240	**25,616**	18,622
EBITDA	**27,180**	27,568	23,278	**110,404**	89,724
Equity-settled share-based compensation	**2,521**	2,009	1,849	**7,869**	6,137
Adjusted EBITDA	**29,701**	29,577	25,127	**118,273**	95,861

NON-GAAP FINANCIAL MEASURES

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

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

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the fourth quarter of 2018 and 2017, the third quarter of 2018, and the years ended 31 December 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

	Unaudited three months ended 31 December 2018					
		Adjustments				
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	**17,288**	**2,459**	**1,579**	**198**	**864**	**22,388**
Profit for the period	**14,026**	**2,879**	**517**	**1,882**	**936**	**20,240**
Profit attributable to equity holders	**14,229**	**2,804**	**(125)**	**1,814**	**1,008**	**19,730**
EPS (RMB per share)						
– basic	**1.505**					**2.087**
– diluted	**1.489**					**2.065**
Operating margin	**20%**					**26%**
Net margin	**17%**					**24%**

	Unaudited three months ended 30 September 2018					
		Adjustments				
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	27,861	2,011	(20,949)	127	13,513	22,563
Profit for the period	23,405	3,531	(20,840)	916	13,411	20,423
Profit attributable to equity holders	23,333	3,458	(20,819)	876	12,862	19,710
EPS (RMB per share)						
– basic	2.469					2.085
– diluted	2.440					2.061
Operating margin	35%					28%
Net margin	29%					25%

	Unaudited three months ended 31 December 2017					
		Adjustments				
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	25,724	1,874	(6,281)	112	424	21,853
Profit for the period	21,622	2,146	(6,229)	474	358	18,371
Profit attributable to equity holders	20,797	2,084	(6,189)	442	320	17,454
EPS (RMB per share)						
– basic	2.206					1.852
– diluted	2.177					1.827
Operating margin	39%					33%
Net margin	33%					28%

	Year ended 31 December 2018					
		Adjustments				
	As reported	**Share-based compensation (a)**	**Net (gains)/ losses from investee companies (b)**	**Amortisation of intangible assets (c)**	**Impairment provision (d)**	**Non-GAAP**
	(RMB in millions, unless specified)					
Operating profit	**97,648**	**7,900**	**(31,168)**	**524**	**17,577**	**92,481**
Profit for the year	**79,984**	**10,654**	**(32,121)**	**4,142**	**17,633**	**80,292**
Profit attributable to equity holders	**78,719**	**10,325**	**(32,696)**	**3,964**	**17,157**	**77,469**
EPS (RMB per share)						
– basic	**8.336**					**8.203**
– diluted	**8.228**					**8.097**
Operating margin	**31%**					**30%**
Net margin	**26%**					**26%**

	Year ended 31 December 2017					
		Adjustments				
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	90,302	6,253	(17,816)	490	2,794	82,023
Profit for the year	72,471	7,080	(18,112)	1,841	3,124	66,404
Profit attributable to equity holders	71,510	6,875	(18,051)	1,706	3,086	65,126
EPS (RMB per share)						
– basic	7.598					6.920
– diluted	7.499					6.830
Operating margin	38%					34%
Net margin	30%					28%

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, net of related deferred tax

(d) Impairment provisions for associates, joint ventures, AFS (2017) and intangible assets arising from acquisitions

INVESTMENTS HELD

As at 31 December 2018, our investment portfolio amounted to approximately RMB369,186 million (31 December 2017: RMB275,617 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;
- available-for-sale financial assets (2017);
- financial assets at fair value through profit or loss and through other comprehensive income;
- investments in redeemable instruments of associates (2017); and
- other financial assets (2017).

Changes in respective items in the consolidated statement of financial position have been disclosed in the notes to the consolidated financial statements 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 RMB238,040 million as at 31 December 2018 (31 December 2017: RMB210,848 million). Other than Meituan Dianping as disclosed in Note 20 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 2018.

We recorded return from our investment portfolio amounted to RMB17,285 million for the year ended 31 December 2018, with a decrease of 2% compared to last year. Details of our return from investment portfolio are as follows:

Income of Principal Investment (Classified by nature of income)	**2018 RMB'Million**	2017 RMB'Million
Dividend income	**686**	1,713
Net gains on disposals and deemed disposals of investee companies	**2,932**	13,518
Net fair value gains	**29,757**	4,298
Impairment provision for investee companies and intangible assets from acquisitions	**(17,577)**	(2,794)
Share of profit of associates and joint ventures	**1,487**	821

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 2018 and 30 September 2018 are as follows:

	Audited 31 December 2018	Unaudited 30 September 2018
	(RMB in millions)	
Cash and cash equivalents	**97,814**	105,394
Term deposits and others	**69,305**	39,079
	167,119	144,473
Borrowings	**(114,271)**	(108,543)
Notes payable	**(65,018)**	(65,157)
Net debt	**(12,170)**	(29,227)
Fair value of our stakes in listed investee companies (excluding subsidiaries)	**238,040**	273,104

As at 31 December 2018, the Group had net debt of RMB12,170 million, compared to net debt of RMB29,227 million as of 30 September 2018. The sequential decrease in indebtedness was mainly due to free cash flow generation, proceeds from TME's capital raising activities and disposals of our stakes in certain investee companies, partially offset by payments for M&A initiatives and media content.

For the fourth quarter of 2018, the Group had free cash flow of RMB28,623 million. This was a result of net cash flow generated from operating activities of RMB33,221 million, offset by payments for capital expenditure of RMB4,598 million.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 46 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 133 of this annual report.

The directors have recommended the payment of a final dividend of HKD1.00 per share for the year ended 31 December 2018. The dividend is expected to be payable on 31 May 2019 to the shareholders whose names appear on the register of members of the Company on 22 May 2019. The total dividend for the year under review is HKD1.00 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 2018, the Company had distributable reserves amounting to RMB28,385 million (2017: RMB26,074 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 137 to 139, Note 31, Note 32 and Note 45 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 2018 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 2018 are set out in the "Chairman's Statement" on pages 4 to 13 of this annual report. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 14 to 30 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 100 to 122 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 100 to 122 and the "Corporate Governance Report" on pages 76 to 99 as well as on page 73 of this annual report. A description of the principal risks and uncertainties facing the Group is set out in "Corporate Governance Report" on pages 76 to 99 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 31 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 are set out in Note 46 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings and notes payable are set out in Note 34 and Note 35 to the consolidated financial statements respectively.

DONATION

The donation made by the Group to Tencent Charity Funds in the year was RMB730 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.

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

During the year ended 31 December 2018, the Company repurchased 2,848,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD886.8 million 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:

		Purchase consideration per share		
Month of purchase in 2018	**No. of shares purchased**	**Highest price paid HKD**	**Lowest price paid HKD**	**Aggregate consideration paid HKD**
September	1,668,500	333.40	306.00	535,627,842
October	1,179,500	322.80	265.20	351,174,951
Total:	2,848,000			886,802,793

Save as disclosed above and in Note 31 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 2018.

ISSUANCE OF DEBT SECURITIES

On 19 January 2018, the Company issued four 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 35 to the consolidated financial statements.

USE OF PROCEEDS FROM IPO OF NON-WHOLLY OWNED SUBSIDIARY

The use of proceeds 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 2018, 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 2018, China Literature had used:

– approximately RMB345.4 million for expanding its online reading business and sales and marketing activities;

– approximately RMB200.9 million for expanding its involvement in the development of derivative entertainment products adapted from its online literary titles; and

– approximately RMB1,734.9 million for funding its potential investments, acquisitions and strategic alliances.

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.

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 expired on 31 December 2011, 23 March 2014 and 16 May 2017 respectively.

As at 31 December 2018, there were a total of 17,215,800 outstanding share options granted to a director of the Company, details of which are as follows:

		Number of share options					
Name of director	Date of grant	As at 1 January 2018	Granted during the year	Exercised during the year	As at 31 December 2018	Exercise price HKD	Exercise period
Lau Chi Ping Martin	24 March 2010	2,500,000	–	2,500,000 (Note 4)	–	31.70	24 March 2015 to 23 March 2020 (Note 1)
	25 March 2014	5,000,000	–	–	5,000,000	114.52	25 March 2015 to 24 March 2021 (Note 2)
	21 March 2016	3,750,000	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 3)
	24 March 2017	5,250,000	–	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 3)
	9 April 2018	–	3,215,800 (Note 5)	–	3,215,800	410.00	9 April 2019 to 8 April 2025 (Note 3)
	Total:	16,500,000	3,215,800	2,500,000	17,215,800		

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 5 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.

2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the 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.

3. 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.

4. The closing price immediately before the date on which the options were exercised on 28 March 2018 was HKD432.2.

5. The closing price immediately before the date on which the options were granted on 9 April 2018 was HKD405.8.

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

Details of movements of share options granted to employees of the Group (apart from a director of the Company) during the year ended 31 December 2018 are as follows:

	Number of share options						
Date of grant	**As at 1 January 2018**	**Granted during the year**	**Exercised during the year** (Note 16)	**Lapsed/ forfeited during the year**	**As at 31 December 2018**	**Exercise price HKD**	**Exercise period**
24 Mar 2011	646,250	–	646,250	–	–	38.88	24 Mar 2014 to 23 Mar 2018 (Note 1)
15 Aug 2011	58,800	–	58,800	–	–	37.80	15 Aug 2012 to 14 Aug 2018 (Note 2)
15 Aug 2011	342,125	–	342,125	–	–	37.80	15 Aug 2013 to 14 Aug 2018 (Note 3)
15 Aug 2011	25,000	–	25,000	–	–	37.80	15 Aug 2014 to 14 Aug 2018 (Note 1)
13 Sep 2012	560,875	–	538,000	–	22,875	49.76	13 Sep 2013 to 12 Sep 2019 (Note 2)
25 Mar 2014	2,562,500	–	20,000	–	2,542,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 4)
25 Mar 2014	3,570,000	–	425,000	–	3,145,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 2)

	Number of share options						
Date of grant	As at 1 January 2018	Granted during the year	Exercised during the year (Note 16)	Lapsed/ forfeited during the year	As at 31 December 2018	Exercise price HKD	Exercise period
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 4)
10 Jul 2014	1,138,005	–	469,353	26,313	642,339	124.30	10 Jul 2015 to 9 Jul 2021 (Note 5)
12 Dec 2014	80,650	–	40,300	–	40,350	116.40	12 Dec 2016 to 11 Dec 2021 (Note 6)
2 Apr 2015	525,000	–	–	–	525,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 5)
10 Jul 2015	739,804	–	170,705	14,070	555,029	148.90	10 Jul 2016 to 9 Jul 2022 (Note 5)
21 Mar 2016	6,675,000	–	550,000	–	6,125,000	158.10	21 Mar 2017 to 20 Mar 2023 (Note 5)
6 Jul 2016	1,283,309	–	162,472	4,020	1,116,817	174.86	6 Jul 2017 to 5 Jul 2023 (Note 5)
24 Mar 2017	1,417,930	–	125,080	–	1,292,850	225.44	24 Mar 2018 to 23 Mar 2024 (Note 7)
24 Mar 2017	21,822,500	–	393,750	–	21,428,750	225.44	24 Mar 2018 to 23 Mar 2024 (Note 5)
10 Jul 2017	13,405	–	–	–	13,405	272.36	10 Jul 2018 to 9 Jul 2024 (Note 4)
10 Jul 2017	9,020,095	–	424,414	137,532	8,458,149	272.36	10 Jul 2018 to 9 Jul 2024 (Note 5)
10 Jul 2017	25,340	–	–	–	25,340	272.36	10 Jul 2019 to 9 Jul 2024 (Note 6)
10 Jul 2017	7,455	–	–	–	7,455	272.36	10 Jul 2020 to 9 Jul 2024 (Note 8)

Date of grant	As at 1 January 2018	Granted during the year	Exercised during the year (Note 16)	Lapsed/ forfeited during the year	As at 31 December 2018	Exercise price HKD	Exercise period
	Number of share options						
23 Nov 2017	89,565	–	–	–	89,565	419.60	23 Nov 2018 to 22 Nov 2024 (Note 4)
16 Jan 2018	–	155,050	–	–	155,050	444.20	16 Jan 2019 to 15 Jan 2025 (Notes 4 and 9)
9 Apr 2018	–	2,082,920	–	–	2,082,920	410.00	9 Apr 2019 to 8 Apr 2025 (Notes 7 and 10)
9 Apr 2018	–	235,515	–	–	235,515	410.00	9 Apr 2019 to 8 Apr 2025 (Notes 4 and 10)
9 Apr 2018	–	16,692,585	–	–	16,692,585	410.00	9 Apr 2019 to 8 Apr 2025 (Notes 5 and 10)
24 May 2018	–	26,390	–	–	26,390	407.00	24 May 2019 to 23 May 2025 (Notes 4 and 11)
22 Jun 2018	–	13,055	–	–	13,055	403.16	22 Jun 2019 to 21 Jun 2025 (Notes 7 and 12)
22 Jun 2018	–	70,525	–	–	70,525	403.16	22 Jun 2019 to 21 Jun 2025 (Notes 4 and 12)
6 Jul 2018	–	5,159,630	–	30,870	5,128,760	386.60	6 Jul 2019 to 5 Jul 2025 (Notes 5 and 13)
6 Jul 2018	–	8,050	–	–	8,050	386.60	6 Jul 2020 to 5 Jul 2025 (Notes 6 and 13)
6 Jul 2018	–	43,890	–	9,660	34,230	386.60	6 Jul 2021 to 5 Jul 2025 (Notes 8 and 13)
24 Aug 2018	–	17,780	–	–	17,780	354.00	24 Aug 2019 to 23 Aug 2025 (Notes 4 and 14)
24 Aug 2018	–	2,660	–	–	2,660	354.00	6 Jul 2019 to 5 Jul 2025 (Notes 14 and 15)
Total:	50,666,108	24,508,050	4,391,249	222,465	70,560,444		

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 3 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.
2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the 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.
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 2 years 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 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.
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 1 year 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 2 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, 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.
8. 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.
9. The closing price immediately before the date on which the options were granted on 16 January 2018 was HKD433.2.
10. The closing price immediately before the date on which the options were granted on 9 April 2018 was HKD405.8.
11. The closing price immediately before the date on which the options were granted on 24 May 2018 was HKD407.
12. The closing price immediately before the date on which the options were granted on 22 June 2018 was HKD396.8.
13. The closing price immediately before the date on which the options were granted on 6 July 2018 was HKD385.6.
14. The closing price immediately before the date on which the options were granted on 24 August 2018 was HKD359.
15. 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.
16. The weighted average closing price immediately before the date on which the options were exercised was HKD398.8.

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 2018 are as follows:

	Number of share options							
Date of grant	As at 1 January 2018	Anti-dilution adjustments during the year (Note 4)	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	As at 31 December 2018	Exercise price (Note 4) USD	Exercise period
Employees								
1 Mar 2015	11,924,136	1,054,796	–	–	33,587	12,945,345	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	9,939,200	879,143	–	–	41,712	10,776,631	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
30 Mar 2015	3,444,042	304,608	–	–	–	3,748,650	0.27	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Jul 2015	200,000	17,690	–	–	142,590	75,100	0.27	1 Jul 2016 to 30 Jun 2025 (Note 1)
1 Oct 2015	780,600	69,000	–	–	57,720	791,880	0.27	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	2,933,281	259,242	–	–	155,837	3,036,686	0.27	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	212,000	18,750	–	–	–	230,750	0.000076	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	761,000	67,270	–	–	81,627	746,643	0.27	1 Mar 2017 to 28 Feb 2026 (Note 1)
31 Mar 2016	340,500	30,115	–	–	575	370,040	0.27	31 Mar 2017 to 30 Mar 2026 (Note 1)
1 Jun 2016	6,521,513	576,827	–	–	–	7,098,340	0.27	1 Jun 2017 to 31 May 2026 (Note 2)

Date of grant	As at 1 January 2018	Anti-dilution adjustments during the year (Note 4)	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	As at 31 December 2018	Exercise price (Note 4) USD	Exercise period
	Number of share options							
30 Jun 2016	600,000	53,070	–	–	–	653,070	0.000076	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	10,863,902	961,076	–	–	624,943	11,200,035	0.27	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	2,468,764	218,362	–	–	–	2,687,126	2.32	5 Jul 2017 to 15 Jun 2027 (Note 3)
16 Jun 2017	9,565,716	846,088	–	–	–	10,411,804	2.32	31 Mar 2018 to 15 Jun 2027 (Note 3)
31 Aug 2017	7,666,803	678,087	–	–	576,297	7,768,593	0.27	31 Aug 2018 to 30 Aug 2027 (Note 1)
20 Dec 2017	7,260,103	642,177	–	–	–	7,902,280	2.32	20 Dec 2018 to 19 Dec 2027 (Note 3)
16 Apr 2018	–	–	1,300,000	–	–	1,300,000	4.04	16 Apr 2019 to 15 Apr 2028 (Note 3)
3 Sep 2018	–	–	460,724	–	460,724	–	2.69	3 Sep 2019 to 2 Sep 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	–	–	3,697,500	7.14	12 Jul 2020 to 16 Oct 2028 (Note 5)
Sub-total:	75,481,560	6,676,301	7,777,224	–	2,175,612	87,759,473		

Date of grant	As at 1 January 2018	Anti-dilution adjustments during the year (Note 4)	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	As at 31 December 2018	Exercise price (Note 4) USD	Exercise period
	Number of share options							
External consultants								
1 Mar 2015	2,348,099	207,701	–	–	207,701	2,348,099	0.000076	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	2,630,000	232,650	–	–	147,710	2,714,940	0.27	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	4,978,099	440,351	–	–	355,411	5,063,039		
Total:	80,459,659	7,116,652	7,777,224	–	2,531,023	92,822,512		

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. In May 2018, in order to offset the dilution effect resulting from the share dividend distributed in December 2017, TME made certain adjustments pursuant to the anti-dilution clause under the share option schemes, to the number of share options outstanding, the applicable exercise price and the number of shares available for issuance for future share options under its share option schemes.

5. 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.

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

	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 Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note).

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III	Post-IPO 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 their discretion determine the specific vesting and exercise periods.	The option period is determined by the Board provided that the period during which the option may be exercised shall not be less than one year from the date of grant of the options.	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined by the Board provided that it is not later than the last day of the 10-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.	The option period is determined by the Board provided that it is not later than the last day of the 7-year period after the date of grant of option. There is no minimum period for which an option must be held before it can be exercised.

	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
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.
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.

	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
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 shall be valid and effective for a period of ten years commencing on 13 May 2009.	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 Post-IPO Option Scheme IV are 200,551,970, 175,093,330 and 342,156,454 respectively, which represent approximately 2.11%, 1.84% and 3.59% 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 33 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 33 to the consolidated financial statements.

SHARE AWARD SCHEMES

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

		2007 Share Award Scheme	2013 Share Award Scheme
1.	Purpose	To recognise the contributions and to attract, motivate and retain eligible participants (including any director) of the Group	
2.	Duration and Termination	It shall be valid and effective for a period of 15 years from the Adoption Date I.	It shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant.
3.	Maximum number of shares that can be awarded	2% of the issued 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))
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))
5.	Operation	The Board shall select the Eligible Person(s) and determine the number of shares to be awarded. The Board shall, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources into the Account I or to the Trustee to be held on trust for the relevant Selected Participant for the purchase and/or subscription of the Awarded Shares as soon as practicable after the Reference Date.	The Board may, from time to time, at its absolute discretion select any Eligible Person to be a Selected Participant and grant to such Selected Participant Awarded Shares. The Board may at any time at its discretion, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources or any subsidiary's resources into the Account II for the purchase and/or subscription of Awarded Shares as soon as practicable after the Grant Date.

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

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

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

During the year, a total of 20,940,149 Awarded Shares were granted under the 2013 Share Award Scheme and out of which, 39,500 Awarded Shares were granted to the independent non-executive directors of the Company. Details of the movements in the Share Award Schemes during the year are set out in Note 33 to the consolidated financial statements.

During the year, a total of 24,098,204 shares were issued to option holders who exercised their share options granted under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, and pursuant to the Share Award Schemes.

As at 31 December 2018, there were a total of 158,988 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

		Number of Awarded Shares				
Name of director	Date of grant	As at 1 January 2018	Granted during the year	Vested during the year	As at 31 December 2018	Vesting period
Iain Ferguson Bruce	24 March 2014	20,000	–	10,000	10,000	24 March 2015 to 24 March 2019
	2 April 2015	15,000	–	7,500	7,500	2 April 2016 to 2 April 2019
	21 March 2016	15,000	–	5,000	10,000	21 March 2017 to 21 March 2020
	24 March 2017	20,000	–	5,000	15,000	24 March 2018 to 24 March 2021
	9 April 2018	–	10,000	–	10,000	9 April 2019 to 9 April 2022
	Total:	70,000	10,000	27,500	52,500	
Ian Charles Stone	24 March 2014	20,000	–	10,000	10,000	24 March 2015 to 24 March 2019
	2 April 2015	15,000	–	7,500	7,500	2 April 2016 to 2 April 2019
	21 March 2016	15,000	–	5,000	10,000	21 March 2017 to 21 March 2020
	24 March 2017	20,000	–	5,000	15,000	24 March 2018 to 24 March 2021
	9 April 2018	–	13,000	–	13,000	9 April 2019 to 9 April 2022
	Total:	70,000	13,000	27,500	55,500	

Name of director	Date of grant	Number of Awarded Shares: As at 1 January 2018	Granted during the year	Vested during the year	As at 31 December 2018	Vesting period
Li Dong Sheng	24 March 2014	10,000	–	5,000	5,000	24 March 2015 to 24 March 2019
	2 April 2015	7,500	–	3,750	3,750	2 April 2016 to 2 April 2019
	21 March 2016	7,500	–	2,500	5,000	21 March 2017 to 21 March 2020
	24 March 2017	10,000	–	2,500	7,500	24 March 2018 to 24 March 2021
	9 April 2018	–	6,500	–	6,500	9 April 2019 to 9 April 2022
	Total:	35,000	6,500	13,750	27,750	
Yang Siu Shun	6 July 2016	8,606	–	2,868	5,738	6 July 2017 to 6 July 2020
	24 March 2017	10,000	–	2,500	7,500	24 March 2018 to 24 March 2021
	9 April 2018	–	10,000	–	10,000	9 April 2019 to 9 April 2022
	Total:	18,606	10,000	5,368	23,238	
	Grand Total:	193,606	39,500	74,118	158,988	

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

In accordance with Article 87 of the Articles of Association, Mr Jacobus Petrus (Koos) Bekker and Mr Ian Charles Stone will retire at the 2019 AGM and, being eligible, will offer themselves for re-election.

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

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 47, 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 25 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 45, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted 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 China's leading eCommerce platform for services; 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 66, 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 55, 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 25 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 61, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation, which produces consumer electronic products and is listed on the Shenzhen Stock Exchange. 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 24 years of experience in the information technology field. Mr Li is the Chairman of TCL Communication Technology Holdings Limited, which was delisted for privatisation from the Stock Exchange on 30 September 2016. Mr Li was the Chairman and executive director of TCL Multimedia Technology Holdings Limited (now known as TCL Electronics Holdings Limited) that is listed on the Stock Exchange up to 22 September 2017, and was also an independent director of Legrand that is listed on the New York Stock Exchange Euronext up to 30 May 2018.

Iain Ferguson Bruce, age 78, 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 54 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.

Ian Charles Stone, age 68, 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 29 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, South East Asia and the Middle East. Mr Stone has more than 48 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 63, 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, the Deputy Chairman of the Council of the Open University of Hong Kong, 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, Mr Yang graduated from the London School of Economics and Political Science in 1978. 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.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 47, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr Xu received a Bachelor of Science degree in Computer Science from Shenzhen University in 1993 and a Master of Science degree in Computer Science from Nanjing University in 1996. Mr Xu currently serves as a director or officer of certain subsidiaries of the Company.

Ren Yuxin, age 43, Chief Operating Officer and President of Platform & Content Group and Interactive Entertainment Group, joined the Company in 2000 and had served as General Manager for the Value-Added Services Development Division and General Manager for Interactive Entertainment Business Division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr Ren has been appointed as Chief Operating Officer and is now in charge of the overall operation of the Platform & Content Group and Interactive Entertainment Group. Prior to joining the Company, Mr Ren has worked in Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science degree in Computer Science and Engineering from 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 or officer of certain subsidiaries of the Company.

James Gordon Mitchell, age 45, 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 relationships, and mergers, acquisitions and investment activity. 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 52, 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. He has agreed to serve as a global board member for the United Nation's World Food Program, an initiative targeting the global eradication of hunger by 2030. 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.

Tong Tao Sang, age 45, 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 in 1994 and a Master of Science degree in Electrical Engineering from Stanford University in 1997. Mr Tong currently serves as a director of certain subsidiaries of the Company.

Zhang Xiaolong, age 49, Senior Executive Vice President and President of Weixin Group, joined the Company in March 2005 and served as the General Manager for the Guangzhou R&D Division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin/WeChat and QQ Mail. He is also responsible for the management and review of major innovation projects. In May 2014, Mr Zhang was promoted to Senior Executive Vice President, in charge of the 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 44, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as General Manager for IM Product Divisions, Vice President for Platform Research and Development System and Senior Vice President for Operations Platform System. Since March 2008, Mr Lu has been in charge of management of the Operations Platform System of the Company. Since May 2012, Mr Lu has been in charge of management of Technical Engineering Group. Prior to joining the Company, he worked for Shenzhen Liming Network Systems Limited. Mr Lu received a Bachelor of Science degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998. Mr Lu currently serves as a director or officer of certain subsidiaries of the Company.

David A M Wallerstein, age 44, 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 with Naspers in China. Mr Wallerstein currently serves as a director of a subsidiary of the Company.

Ma Xiaoyi, age 45, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr Ma served as a General Manager of Games Division of OPTIC Communication Co., Ltd. Prior to that, Mr Ma worked as a General Manager in Shanghai EasyService Technology Development Ltd. Mr Ma graduated from Shanghai Jiaotong University 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 50, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and served as the Company's Financial Controller from 2004 to 2008. Mr Lo was promoted to the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants, 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 HKUST. Mr Lo currently serves as a director of certain subsidiaries of the Company.

Guo Kaitian, age 46, 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 43, 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 23 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' SERVICE CONTRACTS

Mr Ma Huateng has entered into a service contract with the Company for a term of three years from 1 January 2016 to 31 December 2018. The term of the service contract has been extended for another 3 years by way of a supplemental agreement. 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 ended 31 December 2018. The term of the service contract has been extended for another 3 years by way of a supplemental agreement. 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 2019 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 2018, 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	8.61%
Lau Chi Ping Martin	Personal *	49,183,800 (Note 2)	0.52%
Li Dong Sheng	Personal *	52,800 (Note 3)	0.0006%
Iain Ferguson Bruce	Personal *	374,500 (Note 4)	0.004%
Ian Charles Stone	Personal *	193,000	0.005%
	Family +	240,000	
		433,000 (Note 5)	
Yang Siu Shun	Personal *	31,474 (Note 6)	0.0003%

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 17,215,800 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out above under "Share Option Schemes".

3. The interest comprises 25,050 shares and 27,750 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and 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 322,000 shares and 52,500 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and 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 377,500 shares and 55,500 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and 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 8,236 shares and 23,238 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 2018.

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 of the Company. During the year ended 31 December 2018, 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 2018

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, 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 the 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.

Particulars of the OPCOs

Set out below are the registered owners and business activities of the OPCOs which had entered into transactions with the Group during the year ended 31 December 2018:

Name of the operating companies	Registered owners as at 31 December 2018	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 RMB153 billion for the year ended 31 December 2018 and approximately RMB32 billion as at 31 December 2018 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 (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) as at 31 December 2018 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 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 2018 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 2018, 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 RMB64,288 million, RMB2,932 million, RMB18,901 million, RMB15,638 million, RMB7,600 million, RMB2,197 million, RMB1,996 million, RMB186 million, RMB5,174 million, RMB1,351 million, RMB111 million, RMB108 million and RMB24 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 was transacted under such arrangements, save as disclosed elsewhere in this section.

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

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

5. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive 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.

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 RMB2 million, RMB3 million and RMB83 million was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB3 million, RMB22 million and RMB0.012 million was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB3 million and RMB1 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 intragroup 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 of the Company.

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 20 (Transactions with associates), Note 25 (Loans to investees and investees' shareholders) and Note 33 (Share-based payments) to the consolidated financial statements, no related party transaction disclosed in the consolidated financial statements constitutes a discloseable connected transaction as defined under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, 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	31.10%
Advance Data Services Limited	Long position	Corporate (Note 2)	819,507,500	8.61%

Note:

1. MIH TC is wholly-owned by Naspers Limited indirectly through its wholly-owned intermediary companies, MIH Holdings Proprietary Limited, MIH Ming He Holdings Limited and MIH Services FZ LLC. As such, Naspers Limited, MIH Holdings Proprietary Limited, MIH Ming He Holdings Limited 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 2018, 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 2018, the five largest customers of the Group accounted for approximately 4.23% of the Group's total revenues while the largest customer of the Group accounted for approximately 1.37% of the Group's total revenues. In addition, for the year ended 31 December 2018, the five largest suppliers of the Group accounted for approximately 18.63% of the Group's total purchases while the largest supplier of the Group accounted for approximately 5% 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 2018. 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.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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

PRE-EMPTIVE RIGHTS

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 54,309 employees (2017: 44,796). 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 2018 was RMB42,153 million (2017: RMB34,866 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 2019 AGM

The register of members of the Company will be closed from Thursday, 9 May 2019 to Wednesday, 15 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2019 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 Wednesday, 8 May 2019.

(B) Entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Wednesday, 22 May 2019, 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, 20 May 2019.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2019 AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 21 March 2019

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 2018, 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.

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; and
- oversees the risks undertaken by the Company including determining the level of risk the Company expects to and is able to take.

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; and
- reviews the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Investment Committee

- identifies, considers and makes recommendations on mergers, acquisitions and disposals; 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 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
- reviews and monitors the implementation of the board diversity policy of the Company.

Remuneration Committee

- reviews and approves proposals about the policy and structure of remuneration of directors and senior management team;
- ensures 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 2018 is set out on pages 84 to 87.

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.

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 2018, 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 chart below summarises the participation of each of the directors in continuous professional development during the year ended 31 December 2018:

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	√

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

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 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 2018, the Chairman held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of the executive 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 to make necessary changes when appropriate.

Composition

As at the date of this annual report, the Board is comprised of eight directors, with two executive directors, two non-executive directors and four independent non-executive directors. During the year ended 31 December 2018 and up to the date of this annual report, there is no change to the composition of the Board.

A list of directors and their respective biographies are set out on pages 53 to 56 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 professional, constructive and informed manner, and actively participate in Board and committee meetings and to 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 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 his 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 2018 annual general meeting, Messrs Li Dong Sheng and Iain Ferguson Bruce 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.

Board Activity

The Board met six times in 2018. The attendance of each director at Board, committee meetings and annual general meeting, whether in person or by means of electronic communication, is detailed in the table below:

Name of director	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
	Attendance/ No. of Board, Committee Meetings and Annual General Meeting					
Executive directors						
Ma Huateng	6/6			1/1		1/1
Lau Chi Ping Martin	6/6					1/1
Non-executive directors						
Jacobus Petrus (Koos) Bekker	6/6				4/4	1/1
Charles St Leger Searle	6/6	8/8	2/2	1/1		1/1
Independent non-executive directors						
Li Dong Sheng	4/6			1/1	3/4	0/1
Iain Ferguson Bruce	6/6	8/8	2/2	1/1		1/1
Ian Charles Stone	6/6	8/8	2/2	1/1	4/4	1/1
Yang Siu Shun	6/6	8/8	2/2			1/1

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.

* Mr Yang Siu Shun was appointed as the Chairman of the Audit Committee and Mr Iain Ferguson Bruce ceased to be the Chairman of the Audit Committee with effect from the conclusion of the annual general meeting of the Company held on 16 May 2018.

The Audit Committee meets not less than four times a year; the Audit Committee met eight times in 2018. Individual attendance of each Audit Committee member is set out on page 83. 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 2018 includes reviewing:

- the 2017 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;
- the 2018 interim report and interim results announcement;
- the 2018 first and third quarters results announcements;
- the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group;

- in relation to the external auditor, their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;
- the plans (including those for 2018), resources and work of the Company's internal auditors;
- the adequacy of resources, qualifications and training of the Group's finance department; and
- the effectiveness of the Company's financial reporting system, the system of internal controls in operation, risk management system and associated procedures within the Group.

PricewaterhouseCoopers ("PwC") is the 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 2019 AGM.

In view of the new requirement for extending the cooling-off period to 2 years for former professional advisers to take up the position of an independent non-executive director of listed issuers under the revised CG Code which has become effective from 1 January 2019, the terms of reference of the Audit Committee were revised and adopted in December 2018 to align with the revised CG Code.

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 and Mr Yang Siu Shun (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 2018. Individual attendance of each Corporate Governance Committee member is set out on page 83.

The Corporate Governance Committee's major work during the year 2018 includes the following:

- discussed on the arrangements made for directors and senior management team to attend training sessions for continuous professional development;
- reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewed the Company's compliance with the ESG Reporting Guide and disclosure in the Environmental, Social and Governance Report;
- reviewed the Company's policies and practices on corporate governance; and
- reviewed legal and regulatory compliance, including the insider dealing policy, the disclosure of inside information policy and the shareholders communication policy.

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 2018, 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 2018. Individual attendance of each Nomination Committee member is set out on page 83.

During 2018, the Nomination Committee reviewed board composition and director succession, and the board diversity policy, and also considered and made recommendations to the Board on the re-designation of the Chairman of the Audit Committee and the re-appointment of the retiring directors at the 2018 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. 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 is successfully implemented with reference to the measurable objectives. The Nomination Committee will continue to monitor the implementation of the board diversity policy and will review the board diversity policy periodically to ensure its continued effectiveness.

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 four times in 2018. Individual attendance of each Remuneration Committee member is set out on page 83.

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

The Remuneration Committee's major work during the year 2018 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;
- 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, to recognise their contributions to the Company and to provide incentives for future performances.

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual 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.

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

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's business strategies. The risk management and internal control systems shall also ensure the achievement of the Company's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with applicable laws, regulations and policies.

The Board acknowledges that it is the Board's responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates its 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. This review formally takes place 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 risk level the Company expects and is able to take, and proactively considering, analysing and formulating strategies to manage the key risks that the Company is exposed to.

To ensure that the risk management and internal control systems are effective, the Company, under the supervision and guidance of the Board and factoring the actual needs of the Company, has adopted the "Three Lines of Defence" internal monitoring model as an official organisational structure for risk management and internal control.

The First Line of Defence -- Operation and Management

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

The Second Line of Defence -- Risk Management

The Second Line of Defence is mainly the IC. This line of defence is 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. For ensuring effective implementation of such systems, this line of defence also assists and supervises the first line of defence in the establishment and improvement of risk management and internal control systems.

The Third Line of Defence -- Independent Assurance

The Third Line of Defence mainly consists 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 control areas.

The anti-fraud investigation department is responsible for receiving whistleblower reports through various channels and for 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.

These 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 2018, the Company has invested even more resources in the continuous improvement of the risk management and internal control systems, which have also increased the awareness of risk management among the employees. The internal control function has continuously worked closely with and provided proactive supports to the business groups in their business development and risk management. Furthermore, the IA has also continued to promote the deployment of continuous audits to provide more effective and timely independent evaluations. The anti-fraud investigation department further strengthened the values of integrity among the employees, followed up and investigated the alleged fraudulent activities timely. The connection and interaction among the three lines of defence have been further strengthened to have more positive supports to the Company.

Risk Management

The Company is committed to continuously improving the risk management system, including structure, process and culture, through the enhancement of 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 as well as the relevant risk management policies and processes. Each business group of the Company, on a regular basis, identifies and assesses risk factors that may negatively impact the achievement of its objectives, and formulates appropriate response measures. The Company's staff also attends training in relation to risk management and internal control on a regular basis.

Risk Management Process

Being an Internet 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 company 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 senior management and subsequently by the Audit Committee before reporting to the Board;
- The IC reviews 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 supports from the IC.

Significant Risks of the Company

In 2018, management has identified and determined nine significant risks of the Company through the risk management process detailed above. Comparing with 2017, "Fraud risk" is the one additional risk identified and disclosed as one of the significant risks of the Company in 2018. As the Company's business scale, scope and complexity have evolved, so does its external environment, management considers that the Company is still facing the eight significant risks disclosed in 2017 - both the "Regulatory and compliance risk" and "Social responsibility risk" have been elevated in different degrees while the other risks stay at the similar level as last year.

On behalf of the Board, the Audit Committee assists the Board in supervising the overall risk status of the Company and evaluating 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.

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*

   Although the Internet and technology industry is still evolving, regulatory authorities in numerous jurisdictions have been, in an attempt to keep up with such evolution, developing more comprehensive and stringent regulations to regulate the industry. As the Company is continuously expanding its businesses in the PRC and overseas, it is required to comply with the new applicable laws and regulations in different jurisdictions that are specifically relevant to the Company's businesses, such as laws relating to data protection, Internet information security, IP, gaming and Internet finance. In addition, the uncertainty of policy direction may have an impact on the development of different industries in different regions.

   The Company has set up several professional departments and teams that work closely with management of business groups to monitor and identify changes in any relevant laws and regulations, so as to take appropriate actions or measures to ensure the Company is in compliance with applicable laws and regulations. We have invested abundant resources in many aspects to ensure the compliance of regulatory requirements. In addition, the Company also actively exchanges view and information with relevant regulatory authorities on the trend and development of Internet industry.

2. *Market competition and innovation risk*

   The Internet industry is highly competitive, innovative and ever-changing. The cross-sectoral expansion of non-Internet companies adds more new participants to the market. The users' desire for innovative products and service is also increasing. Therefore, to attract new users while maintaining its existing market share is still one of the challenges of the Company. The lack of innovation or slow innovation in technology and product would impair the core competitiveness of the Company.

   The Company stays on top of the industry trends, keeps up with the technological trend through innovation. The Company focuses on changes in user experience, and continuously recruits more talents; optimises its organisational structure; enhances the innovation capabilities by improving talent quality and cultivating young talents; enhances its technical capabilities and innovation environment to develop products that meet the expectations of the market. The Company leverages the strength of the existing platforms to seek better business partners for exploring new business opportunities and better responding to the market needs. The Company has established a number of open platforms with the aim to promote "mutual benefit and win-win" concept, and to strengthen the cooperation with its business partners. For example, "Double Hundred Plan" of Tencent Westart Space, which incubates potential startup companies, has enhanced its collaboration with business partners and its competitiveness in the market.

3. *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 materially adversely impact the Company's businesses.

The Company has been continuously investing in the infrastructure for products and platforms of the Company to enhance its disaster recovery capability in order to provide stable support to the business development. Various business departments are also engaged in emergency procedures to ensure the smooth operation of the Company's businesses. In addition, the Company has established dedicated teams to develop business contingency plans and perform periodic drills on the plans to ensure their effectiveness.

4. *Information security risk*

Protecting user data is the top priority of the Company, and the Company is fully aware that any loss or leakage of sensitive user information could have a significant negative impact on the affected users and the Company's reputation, even lead to potential legal action against the Company.

The Company is obliged to protect sensitive user information and as such, the Company strives to provide the highest level of protection on such data. In this regard, the Company has formulated policies and control measures to protect user data. Information security is ensured through effective management systems, encryption, access restrictions and process protocols. In addition, the Company performs review periodically and engages independent specialists to review the Company's data protection practices and provides training programmes to employees to enhance their awareness of information security.

5. *2B business risk*

The Company has actively developed various 2B businesses related to Industrial Internet. With the rapid development of the 2B business of the Company, if the Company fails to optimise its organisational structure with support from professional talents to quickly explore new business operating and management models, or improve its cooperation mechanisms with various business partners, it may affect the continuous healthy development of the 2B business.

The Company is accumulating and solidifying its experience in the 2B business. The Company has been proactively responding to the challenges by having optimised its organisational structure and resource allocation, continuously improving the business process, and recruiting more 2B business professional talents and setting up appropriate mechanisms to ensure the effective operation of the 2B business for rapid and sustained development.

6. *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. The Company's products and platforms are subject to increased scrutiny from a social responsibility perspective.

The Company has long been endeavoring to promote the healthy development of the Internet industry, and efforts are being made to make the products and platforms of the Company exert a positive community influence. The Company pays close attention to content quality, product design and operation of the platform. The Company actively provides more assurance to the society by using advanced technology to prohibit any illegal and unhealthy information and content access the Company's platform and products. The Company encourages the study of key technologies and basic science, and actively propagates and enriches Chinese traditional culture. For example, the "Tencent Game Guardian Platform" is a time management tool used to control the time juveniles spend on games; "Shepherd Plan" is a non-profit platform used for preventing fraud; the "Xplore Prize" has been initiated by the Company in cooperation with many well-known scientists; and the Company has been cooperating with Forbidden City Museum to propagate excellent traditional culture by creative technologies. At the same time, the Company has established a sound monitoring and reporting mechanism to deal with illegal and vicious contents.

7. *Crisis management and reputation risk*

As one of the China's largest technology companies with a diverse portfolio of businesses, products and investments, the Company always attracts very high attention from the public and media. The media is diverse and information spreads rapidly. If the Company does not pay sufficient attention to public opinion, public relations to the crisis are not dealt with in a timely manner, and failure to disclose comprehensive and proper information to the public, it will damage the Company's reputation, brand and image, and adversely affect the business and prospects of the Company.

The Company has set up professional public relations department and teams for crisis management, with public relations management mechanism established. The teams have maintained close interaction with management and business groups. The teams gather public opinions, analyse and identify relevant information and report their analysis to management to more promptly and appropriately respond to the public according to the Company's policies and procedures.

8. *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.

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 cash 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 internal audit and internal control to empower investee companies, and to continuously support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.

9. *Fraud risk*

In recent years, fraudulent activities have occurred frequently in the technology, media and telecom industry and therefore integrity has become an industrial concern. With the business development of the Company, the business scale and complexity have been evolved, and consequently the fraud risk inevitably increased in a certain degree. For example, fraudulent activities caused by collusion between suppliers/business partners and employees can have a negative impact on reputation and finance 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 methods. To enhance the awareness of integrity, the Company continuously conducts various training and propaganda for its employees and suppliers/business partners. For employees, the Company has established the Sunshine Code that the employees shall strictly follow during their employment and in the course of business dealing with suppliers/business partners. For suppliers/business partners, the Company cooperates with them to create an ecosystem with integrity. To build up a healthy and transparent business environment, the suppliers/business partners are required to sign the Anti-commercial Bribery Declaration. Furthermore, the Company has set up the anti-fraud investigation department for years to collect whistleblowing cases from multiple 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 involved in any fraudulent activities. The Company may also pass the relevant case for juridical process according to the relevant laws 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.

Internal Control

The Company has always valued the importance of the internal control systems, and has been implementing 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 their appropriateness and effectiveness.

The Company's internal control systems clearly define roles and responsibilities of each party as well as authorisations and approvals required for key actions of the Company. Policies and procedures are in place for the key business processes. This information is also clearly conveyed to employees in practice and plays an important role in 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 the 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 the senior management team of the Company 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, among other things, of 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 self-assessment on internal control as detailed above and discussing the major risks with the senior management of the Company.

The Board is of the view that throughout the year ended 31 December 2018, 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 audit 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.

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 Mr Li Dong Sheng, all directors attended the 2018 annual general meeting held on 16 May 2018, with a view to understanding the views of the Company's shareholders. The company secretary provided the minutes of 2018 annual 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, the Company's shareholders are provided with contact details of the Company such as telephone number and email address which are available on the Company Website, in order to enable them to make any query that they may have. Shareholders may send their enquiries to the Board directly through these means. Shareholders may also contact the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, if they have any enquiries about their shareholdings and entitlements to dividends.

DISCLOSURE OF OTHER INFORMATION

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

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code. 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 2018.

Appointment Terms of Non-Executive Directors

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

Directors and Officers Liability Insurance

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the directors 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 123 to 131. During the year ended 31 December 2018, 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 amounts of audit and audit-related services for the year ended 31 December 2018 also included the services fees in connection with the initial public offering of a subsidiary of the Company and other M&A transactions. 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

OVERVIEW

This report provides information on the Group's environmental, social and governance ("ESG") performance for the year of 2018. It should be read in conjunction with this annual report, in particular the Corporate Governance Report contained in this annual report, as well as the sections headed "Corporate Governance" and "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.

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 considerations into our 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 core of our ESG strategy is our vision to become the most respected 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 and provide them with training and development opportunities
    - Establish a diverse corporate culture

2. Users
   - Consistently listen to the voices of our users, concurrently enhancing product and service quality
   - Be honest to users and protect their interests
   - 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

4. Community
   - Establish a platform for charity donations
   - Promote innovation and the establishment of a legal framework 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.

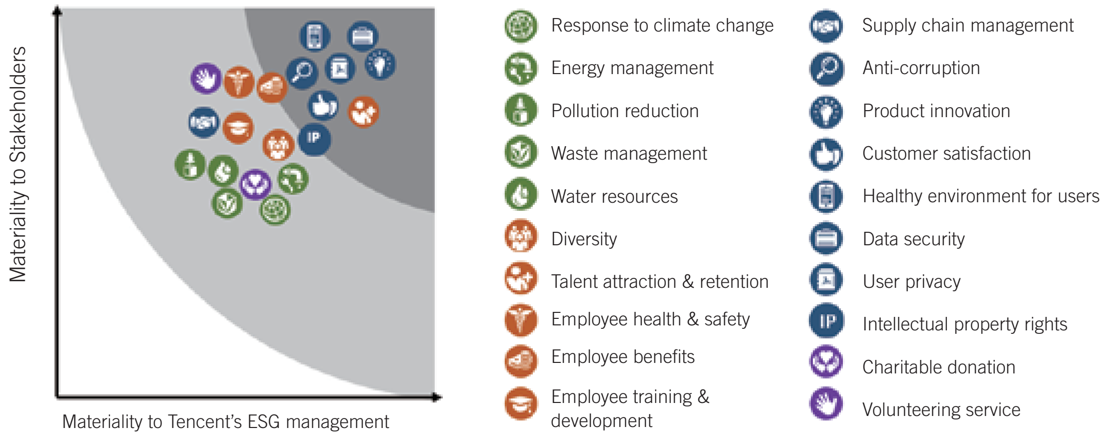
Stakeholder analysis

We understand the importance of the feedback from our stakeholders (including our users, investors, employees and business partners) 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

Assessment on the materiality of the ESG topics

In 2018, 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. The results of the survey are 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, and encourage every individual, enterprise and organisation to take part in the implementation of our ESG strategy.

"Internet+" 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.

ENVIRONMENT

We recognise the importance of environmental protection and conservation of natural resources in our business operations. Starting from our office buildings in Shenzhen, we have implemented a number of energy-saving measures and we plan to adopt the same in our office spaces in other locations. We have also strived to build our data centres with environmental considerations as one of our key priorities.

Energy Saving Measures taken in our New Office Building

We have taken environmental protection as one of our priorities when designing our new office building, Tencent Binhai Building, in Shenzhen. The construction has been certified as attaining LEED-NC Gold Standard and the building has been under operation in accordance with LEED-EB standards. 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 also implemented various measures to enhance efficiency of energy use and reduce water consumption and emissions.

We have optimised the air conditioning system and the integrated building management system in order to automate the energy saving and monitoring process. The air conditioning system uses pumps controlled by frequency-conversion technology for the enhancement of energy efficiency. We have also reduced energy consumption of the air conditioning system by partially deploying natural ventilation in autumn and winter. We have also adopted a smart lighting system which allows remote automatic control over the lighting in the office area for the purpose of energy conservation.

Our new office building has adopted a centralised system to collect, purify and recycle condensed water from the air conditioning system, and water from drinking water system, showers and cooling towers, for the purposes of flushing, watering plants and cleaning the parking lot. In addition, we have installed a direct drinking water system in replacement of bottled water. It reduces the use of plastic packaging materials and indirectly reduces the CO2 emissions generated from the delivery of bottled water.

We monitor the levels of air pollutants such as PM2.5, PM10, carbon dioxide, carbon monoxide, sulfur dioxide, nitro dioxide inside and outside Tencent Building with an online monitoring system and display the data on a real-time basis. To ensure the air quality in the building, we have installed induced ventilation system (which regulates the ventilation automatically in response to the level of carbon monoxide) in the underground parking garage and fresh air ventilation system (which regulates the ventilation automatically in response to the level of carbon dioxide) in the office area. We have upgraded the kitchen ventilation units in the kitchens in our office building. The units comprise fire-resistant environmental friendly exhaust hoods to remove oil and purify air with photolysis purification function and the activated carbon filter and air ioniser to neutralise odors. The emission of cooking fumes is in compliance with the PRC national standards GB18483-2001.

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 in the PRC industry.

T-block technology (comprising (i) photovoltaic + High Voltage Direct Current ("HVDC") technology for electrical design; (ii) indirect evaporative cooling units; (iii) Tnebula smart control system; and (iv) fully commercialised project delivery solution) has been used in the fourth generation of our data centres, including the new data centre in Shenzhen, Gui'an and Chongqing.

We have adopted the T-base large-scale data centre campus construction model which has placed us at the leading position in terms of the efficient use of space and the standardisation of the construction process. It does not only shorten the construction cycle but also minimise the impact on the environment and increase the power usage effectiveness ("PUE") of our data centres. The annual average PUE of our data centres which are located in a low-altitude climate zone (including the one in Shenzhen) is below 1.25. Our new data centre in Gui'an is an advanced data centre with a high level of privacy, defence and security. It completed the test run during which the PUE was 1.12. We expect that it will serve as a highly reliable and environmentally friendly data centre for our Group and our business partners. We have achieved standardised application of the T-block technology in this project.

We have shared our experience and technology in building green data centres with other industry players so that HVDC, micro module and indirect evaporative cooling technologies have been widely adopted in the PRC data centre business. We have also helped to establish the industry standards for HVDC and micro module technologies in order to enhance energy saving efforts among the industry players. In the future, we will further promote T-block technology. We will strive to enhance the power usage effectiveness while improving the efficiency of the data centre construction process.

Table of Environmental Key Performance Indicators

Below are the environmental key performance indicators ("KPIs") of the Group for the year ended 31 December 2018. Unless otherwise specified, the following data covers the Group's operation, including office buildings and data centres, in Mainland China. For data of GHG emissions as well as energy and resources consumption, only the major office buildings and the main data centres (where were built in the past four years) are within the scope. In 2018, two new office buildings (namely Tencent Binhai Building and Wuhan R&D Centre) were added to the reporting scope. Please refer to the notes for the detailed scope of the data collected.

1. Emissions

KPIs

Total GHG emissions (Scopes 1 and 2) (tonnes)	715,352.89
Direct GHG emissions (Scope 1) (tonnes)	2,591.07
Including: Gasoline (tonnes)	191.00
Diesel (tonnes)	47.83
Natural gas (tonnes)	2,352.24
Indirect GHG emissions (Scope 2) (tonnes)	712,761.82
Including: Electricity (tonnes)	712,761.82
Total GHG emissions in the office buildings per employee (tonnes per employee)	2.01
Total GHG emissions in the office buildings per floor area (tonnes per square metre)	0.09
Hazardous waste (tonnes)	2.51
Hazardous waste per employee (tonnes per employee)	0.00005
Non-hazardous waste (tonnes)	5,917.28
Non-hazardous waste per employee (tonnes per employee)	0.12

Note:

1 Due to its business nature, the significant air emissions of the Group are GHG emissions, arising mainly from fuels and electricity derived from fossil fuels.

2 The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data is presented in carbon dioxide equivalent and is based on the "2015 Baseline Emission Factors for Regional Power Grids in China" issued by the National Development and Reform Commission of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" issued by the Intergovernmental Panel on Climate Change (IPCC). The scope of GHG emission data covers the Group's office buildings located in Shenzhen, Guangzhou, Shanghai, Beijing, Chengdu and Wuhan, and the main data centres which were built over the past four years in Mainland China.

3 Diesel was consumed for backup generators.

4 Hazardous waste produced by the Group's operation mainly includes waste toner cartridge and waste ink cartridge from printing equipment at office buildings, as well as waste lead-acid accumulators at data centres. Waste toner cartridge and waste ink cartridge are collected and disposed of by printing suppliers, whereas lead-acid accumulators are disposed of by qualified waste recycling vendors. In 2018, there were no waste lead-acid accumulators.

5 Non-hazardous waste produced by the Group's operation mainly includes domestic waste and non-hazardous office waste. Domestic waste is disposed of by the property management company and kitchen waste recycling vendors, and its data is not available for statistics, so we made estimation of domestic waste produced at the Group's office buildings located in Shenzhen, Guangzhou, Shanghai, Beijing, Chengdu and Wuhan with reference to "Handbook on Domestic Discharge Coefficiencies for Towns in the First Nationwide Census on Contaminant Discharge" published by the State Council. Non-hazardous office waste is recycled by waste recycling vendors.

2. Energy and resources consumption

2.1 Office Buildings

KPIs

Total energy consumption (MWh)	167,488.48
Direct energy consumption (MWh)	12,852.04
Including: Gasoline (MWh)	780.24
Diesel (MWh)	42.10
Natural gas (MWh)	12,029.70
Indirect energy consumption (MWh)	154,636.44
Including: Electricity (MWh)	154,636.44
Total energy consumption per employee (MWh per employee)	3.28
Total energy consumption per floor area (MWh per square metre)	0.14
Running water consumption (tonnes)	973,413.06
Running water consumption per employee (tonnes per employee)	19.07
Recycled water consumption (tonnes)	5,461

2. 2 Data Centres

KPIs

Total energy consumption (MWh)	938,988.70
Direct energy consumption (MWh)	139.82
Including: Diesel (MWh)	139.82
Indirect energy consumption (MWh)	938,848.88
Including: Electricity (MWh)	938,848.88
Average PUE	1.27~1.47
Running water consumption (tonnes)	933,813

Note:

1 The scope of energy and resources consumption data relating to office buildings covers those located in Shenzhen, Guangzhou, Shanghai, Beijing, Chengdu and Wuhan, whereas that of data centres covers the main data centres which were built over the past four years in Mainland China.

2 Total energy consumption is worked out by the data of 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 resources come from municipal water supply.

4 Recycled water consumption is the recycled domestic water treated by the waste water treatment system equipped at Tencent Tower A and Tower B in Chengdu.

5 Fees for diesel in some data centres are borne by the operators and therefore such diesel data is not available. Data of diesel consumed by our data centres reported here only covers the data centres whose diesel fees are borne by the Group.

6 Average PUE (Power Usage Effectiveness) is yearly 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 amount of energy used by a data centre to the energy delivered to the computing equipment.

7 Water fees in some data centres are borne by the operators and therefore such running water consumption data is not available. Data of running water consumed in our data centres reported here only covers the data centres whose water fees are borne by the Group.

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 work with their supervisors to set 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.

As our staff is one of our most important assets, we invest heavily 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 provided and managed in a systematic manner. 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 also developed policies which set out requirements for the qualifications and experience of the instructors and the objectives of the programmes and worked with external educational institutions from time to time to jointly develop training programmes.

In 2007, we founded our own corporate 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 ATD Excellence in Practice Award by the Association for Talent Development.

As at 31 December 2018, there were approximately 700 face-to-face courses, 7,400 online courses and over 1,000 internal part-time instructors. Over the past decade, we ran face-to-face courses over 8,000 times per year and over 1,500 courses were livestreamed per year. The aggregate number of training hours of our employees in the past 10 years exceeds 5 million. Throughout 2018, the number of the average in-house training hours per employee was 37.1 and the percentage of employees who received training is 99%.

We also intend to open up our training resources to our business partners and industry players in order to enhance the market standard.

Equal Opportunities and Diversity

We had 54,309 employees as at 31 December 2018. Our employment practice is in compliance with applicable laws and regulations (including but not limited to those which prohibit child 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.

The recruitment process strictly abides by the guidelines of the Group's Human Resources Department. Every job applicant is required to provide information on his/her education background, qualification and job experience in a recruitment questionnaire, which is reviewed by Human Resources Department and verified by professional background check agency. This allows the Group to hire suitable candidate in accordance with the job requirements and, to the extent possible, avoid child and forced labour.

Compensation and Benefits

Compensation

We offer competitive pay and employee benefits to attract and retain talent. The remuneration and bonus system is performance-based and designed to reward employees with high performance and great 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 2018. We have also been voted as one of the best employers in the PRC for 13 consecutive years since 2006 in a survey jointly conducted by zhaopin.com and the Institute of Social Science Survey, Peking University.

We care for the growth of our employees and provide benefits with Tencent characteristics to our employees. For example, we celebrate special occasions of our employees (e.g. work anniversary, wedding and festivities). We strive to create work-life balance and a safe and comfortable 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 different internal committees. The promotion review process is fair 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.

Employee Departure

All of our employees enter into written employment contracts which detail, among other things, 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

We have implemented various initiatives such as flexi-time arrangements and volunteer service leave 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.

We also organise a wide variety of recreational and leisure activities (e.g. running, photography, music, dance, language classes) for employees.

Occupational Health and Safety

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

We have a designated team in charge of the physical and mental health of employees. We arrange annual medical checkups 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).

Communication

We strive to create casual yet sophisticated communication channels with customised contents 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 2018, our Group and our employees donated approximately RMB3.5 billion and RMB68 million in total to the Tencent Foundation respectively since its establishment. During the year 2018, our Group and our employees donated RMB730 million and RMB840,000 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. This is a good example of the application of the concept of "Internet+". As of 31 December 2018, there had been over 6,000 active charitable organisations and close to 16,000 charity projects in different locations with different focuses.

The Tencent Foundation has also applied technology to various charitable initiatives such as WeCountry for rural development and Tencent Three-dimensional Disaster Relief Programme in response to recent natural disasters in China via the online platform. In 2018, the total number of donations made by the Internet users was approximately 69 million and the total amount of the funds raised was over RMB1.7 billion.

The highlight of the Tencent Foundation's charity efforts is the annual "99 Charity Day" campaign where it matches the donations made by the Internet users between 7 September and 9 September via its online platform. In 2018, the Tencent Foundation donated RMB300 million for the campaign, of which 35.2% was for education initiatives, 34.5% for medical care, 26.1% for poverty relief and the remaining 4.2% 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) disaster relief; (ii) rural development; (iii) education; (iv) ecological conservation and cultural preservation; (v) community development; and (vi) poverty relief.

Disaster relief

In response to the recent natural disasters in the PRC as well as globally, the Tencent Foundation has created a multifaceted disaster relief model by combining our various products including online platforms, instant messengers, online payment and Internet search to help the public follow the latest news, participate in rescue efforts and make donations. In addition, the Tencent Foundation has made donations to support the rescue missions and post-disaster reconstructions. In 2018, it donated an aggregate of approximately RMB4.5 million to the China Foundation for Poverty Alleviation, the China Children and Teenagers' Fund and other charitable organisations in response to the earthquake in Xinjiang and the landslides in Sichuan and for the post-disaster child care programme following the earthquake in Ya'an city.

Rural development

In 2015, WeCountry, 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 2018, 28 provincial administrative areas with approximately 10,000 villages (or communities) joined WeCountry platform. The number of verified villagers was approximately 2.34 million as of 31 December 2018.

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 2018, the Tencent Foundation donated approximately RMB119 million in education related projects. For example, it had cooperations with the funds set up by universities (including Peking University, Shenzhen University and Nanjing University) on higher education and with UNICEF on cybersecurity education. It also sponsored the 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 2018, the Tencent Foundation donated approximately RMB5.8 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 2018, the Tencent Foundation raised approximately RMB120 million on the "99 Charity Day" to promote philanthropy and innovation in charity work.

Poverty relief

In 2018, the Tencent Foundation donated approximately RMB125 million to support poverty relief initiatives through various charitable organisations, in addition to the matching donation made by the Tencent Foundation on the "99 Charity Day" on the same area.

Volunteering

In 2006, some of our employees founded the Tencent Volunteers' Association on their own initiative in response to our corporate vision of being "the most respected Internet company". Since then, the Tencent Volunteers' Association has contributed more than 120,000 hours of voluntary services and the total number of participants is more than 60,000. There are more than 20 sub-divisions at the city level (such as Beijing, Shanghai, Chengdu, Shenzhen, Wuhan, Guangzhou and Hefei) and at the regional level (such as Hebei, Guangdong, Guizhou, Gansu and Yunnan).

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

Tencent embraces the value of integrity, proactivity, collaboration and innovation. To promote integrity, we have developed robust systems and measures to prevent, detect and deter corruption or any other fraudulent activities. Internal audit is conducted and risk management and risk control have been further strengthened to ensure the Group's compliance with ethical standards which we promote and strive to uphold.

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 2018, 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 emphasises the responsibilities of the management. The immediate supervisor will be demoted if an employee under his management has committed a fraudulent act as a result of deficiency in the management process, unclear delineation of responsibilities or loopholes in the business operation. The immediate supervisor will also be required to come up with a remedial plan with the risk management and internal control departments and implement such plan within three months. The Internal Audit Committee has the discretion to make the final decision on whether such immediate supervisor can be resumed to his original role after the implementation of the remedial plan.

In 2018, in order to ensure our employees comply with the requirements and ethical standards stipulated in the Sunshine Code, we have requested all employees to complete the e-learning programme with a view to understanding the updated rules and standards of the Sunshine Code. For positions with high risk of fraud, they are required to attend face-to-face training course at least once a year. We also promote job rotation for these employees on a regular basis in order to minimise the risk of fraud.

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 potential fraudulent activities and non-compliance. The Whistleblowing Policy expressly outlines the multiple whistleblowing channels and how the Group should deal with such concerns, 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 Weixin 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 and never work with them again. 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

The Group is subject to and strictly abides by applicable laws and regulations in relation to cross-border and domestic money transmission, anti-money laundering ("AML") as well as counter-terrorist financing ("CFT") in the PRC and other countries where we provide payment processing services. We have fulfilled not only our legal obligations but also our social responsibilities.

As a result of the complexity of legal and regulatory compliance in multiple jurisdictions, we have dedicated more resources (including but not limited to human resources and system capabilities) to the compliance work in the following areas: (i) recruiting more AML/CFT professionals for the know-your-customer process, suspicious transaction review and analysis, and system infrastructure enhancement in order to enhance the effectiveness and professionalism of AML/CFT measures; (ii) strengthening the implementation of internal control measures in relation to sanctions compliance in order to minimise the relevant risks; (iii) enhancing the cooperation with regulators and law enforcement bodies on AML investigations; (iv) actively participating in the combats against money laundering, terrorism, tax evasion and corruption activities internationally, in order to prevent money laundering and upstream criminal activities; and (v) carrying out various forms of training, education, and public relation activities on AML for our executives, employees and users.

In 2018, Tencent has established an Anti-Money Laundering Programme (the "AML Programme") to ensure that money laundering risks identified by Tencent are appropriately mitigated and to protect Tencent, its employees, shareholders and users from money laundering risks. The AML Programme provides guidance to all Tencent employees, requiring them to conduct business in accordance with applicable AML laws, rules and regulations.

The key aspects of the AML Programme include but are not limited to the following:

- Appointing AML specialists at global and country levels;
- Establishing a comprehensive Customer Due Diligence Programme;
- Establishing processes and systems which are designed to monitor customer transactions for the purpose of identifying suspicious activities;
- Investigating and subsequently reporting suspicious activities to the applicable regulatory bodies;
- Conducting regular independent testing on our AML system and providing regular AML trainings to our employees and counterparties; and
- Prohibiting the onboarding of any anonymous users or users using an obviously fictitious name for our services.

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 2018, all suppliers which were formally engaged had completed the Self-Assessment and signed the Anti-commercial Bribery Declaration. We were not aware of any material 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 form a supplier assessment team to conduct the background check (including site visit) on the supplier. The team will consist of 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 has 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 user privacy, product safety and IP rights as described below.

User Privacy

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. We comply 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.

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 “Data for Social Good”. We have published the Tencent Privacy Protection Whitepaper and launched the Tencent Privacy Platform (https://www.qq.com/privacy.htm) to give our users a comprehensive understanding of the privacy protection measures taken by Tencent. 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, we are a member 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 recognised in the PRC and internationally and ISO certified.

Customer Service

The Tencent Customer Service Centre consists of more than 2,500 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.

Healthy Environment for our Users

One of our important businesses is our online gaming business. We need to comply with the laws, regulations and policy requirements in relation to online gaming in the PRC.

The authorities in the PRC which regulate online gaming mainly include: (i) the State Administration of Press and Publication; (ii) the Ministry of Culture and Tourism; (iii) the Ministry of Industry and Information Technology; and (iv) the State Administration for Market Regulation.

The laws, regulations and policies relating to online gaming mainly include: (i) "The Regulation on Internet Information Service of the People's Republic of China" promulgated by the State Council; (ii) "The Provisions on the Administration of Online Publishing Services" promulgated by the former State Administration of Press, Publication, Radio, Film and Television and the Ministry of Industry and Information Technology; and (iii) "The Interim Provisions on the Administration of Internet Culture", "The Interim Measures for the Administration of Online Games" and "The Notice on Regulating Online Game Operation and Strengthening Concurrent and Ex-Post Supervisions" promulgated by the former Ministry of Culture. The aims of such laws include the regulation of the qualifications of operating entities of online games, the regulation of the operation of online games, the protection for the physical and mental health of online game users and adolescents and the privacy protection of the personal data of users.

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 operating online games, such as the Telecommunication Business Operation Permit, the Online Publishing Service Licence and the Internet Culture Business Permit.

To safeguard the physical and mental health of online game users and adolescents, 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 Game Guardian Platform" (http://jiazhang.qq.com) which assists parents to monitor the gaming habits of their underage children. This is the platform dedicated to healthy gaming of underage children 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 logout from the game if players spend too much time on the game in one day. In 2018, we have upgraded the Healthy Gameplay System, tightened the requirements for identity verification and made the system available for more games. We have also launched a customer service which sends reminders when a game player may have engaged in overspending and provides subsequent counselling.

In addition, we have worked with School of Brain and Cognitive Science of Beijing Normal University and Data Centre of the China Internet (DCCI) to publish "Guide on Healthy Use of the Internet for Teenagers" and "Research on Online Gaming Behaviours of and Online Protections for Teenagers". Parents, education institutions and industry players can download these documents free of charge for their reference.

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

We are a technology-oriented company and we stress the importance of the observation and protection of intellectual property ("IP") rights. We have established a dedicated IP team with approximately 80 employees as of 31 December 2018 that is responsible for the 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 2018, we had obtained over 19,000 officially registered trademarks and over 9,000 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.

Within the past decade, we had several times been awarded "China Patent Gold Awards" by the State Intellectual Property Office of the PRC, "China Trademark Gold Awards" jointly by World Intellectual Property Organisation and the State Administration for Industry & Commerce of the PRC and "China Copyright Gold Awards" by the National Copyright Administration of the PRC and the World Intellectual Property Organisation, signifying our contribution to the development of independent innovation of the PRC. We have also several times been awarded "National Copyright Demonstration Unit", recognising our outstanding performance in management and protection of copyright. In December 2018, two of our patents were awarded "China Patent Silver Award" by the State Intellectual Property Office of the PRC and this is the first time where an Internet security service provider in China won such title in the category of "file scanning method and system, client and server". In 2018, we have also entered into a patent cross licence agreement with Google.

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

羅兵咸永道

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 132 to 264, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 2018, 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.

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 2018, 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 judgment in determining the expected users' relationship periods for certain virtual products/items. These judgment 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 judgment 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures	
Refer to Notes 2.13(a), 2.15, 4(b), 19, 20 and 21 to the consolidated financial statements As at 31 December 2018, the Group held significant amounts of goodwill, investments in associates and joint ventures amounting to RMB32,605 million, RMB219,215 million and RMB8,575 million, respectively. Impairment provision of RMB784 million, RMB14,069 million and RMB2,328 million had been recognised during the year ended 31 December 2018 against the carrying amounts, respectively. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgment 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.	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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and joint ventures (Cont'd)	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.

Key Audit Matter	How our audit addressed the 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), 23, 24, 37 to the consolidated financial statements As at 31 December 2018, 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 RMB97,877 million, RMB43,519 million and RMB4,506 million, respectively, of which approximately RMB83,934 million of these financial assets and approximately RMB4,466 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.	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 2018 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.

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.

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, 21 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'Million	2017 RMB'Million
Revenues			
Value-added services		**176,646**	153,983
Online advertising		**58,079**	40,439
Others		**77,969**	43,338
	5	**312,694**	237,760
Cost of revenues	8	**(170,574)**	(120,835)
Gross profit		**142,120**	116,925
Interest income	6	**4,569**	3,940
Other gains, net	7	**16,714**	20,140
Selling and marketing expenses	8	**(24,233)**	(17,652)
General and administrative expenses	8	**(41,522)**	(33,051)
Operating profit		**97,648**	90,302
Finance costs, net	9	**(4,669)**	(2,908)
Share of profit of associates and joint ventures	10	**1,487**	821
Profit before income tax		**94,466**	88,215
Income tax expense	11	**(14,482)**	(15,744)
Profit for the year		**79,984**	72,471
Attributable to:			
Equity holders of the Company		**78,719**	71,510
Non-controlling interests		**1,265**	961
		79,984	72,471
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	**8.336**	7.598
– diluted	12(b)	**8.228**	7.499

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Profit for the year	**79,984**	72,471
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
Share of other comprehensive income of associates and joint ventures	**23**	907
Net gains from changes in fair value of available-for-sale financial assets	**–**	16,854
Transfer to profit or loss upon disposal of available-for-sale financial assets	**–**	(2,561)
Currency translation differences	**4,133**	(9,316)
Other fair value gains	**181**	756
Items that will not be subsequently reclassified to profit or loss		
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	**(16,391)**	–
Other fair value losses	**(170)**	(50)
	(12,224)	6,590
Total comprehensive income for the year	**67,760**	79,061
Attributable to:		
Equity holders of the Company	**66,339**	78,218
Non-controlling interests	**1,421**	843
	67,760	79,061

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

		As at 31 December	
		2018	2017
	Note	**RMB'Million**	RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**35,091**	23,597
Construction in progress	17	**4,879**	3,163
Investment properties		**725**	800
Land use rights	18	**7,106**	5,111
Intangible assets	19	**56,650**	40,266
Investments in associates	20	**219,215**	113,779
Investments in redeemable instruments of associates	2.2(a)	**–**	22,976
Investments in joint ventures	21	**8,575**	7,826
Financial assets at fair value through profit or loss	2.2(a), 23	**91,702**	–
Financial assets at fair value through other comprehensive income	2.2(a), 24	**43,519**	–
Available-for-sale financial assets	2.2(a)	**–**	127,218
Prepayments, deposits and other assets	25	**21,531**	11,173
Other financial assets	2.2(a), 26	**1,693**	5,159
Deferred income tax assets	27	**15,755**	9,793
Term deposits	28	**–**	5,365
		506,441	376,226
Current assets			
Inventories		**324**	295
Accounts receivable	29	**28,427**	16,549
Prepayments, deposits and other assets	25	**18,493**	17,110
Other financial assets	2.2(a), 26	**339**	465
Financial assets at fair value through profit or loss	2.2(a), 23	**6,175**	–
Term deposits	28	**62,918**	36,724
Restricted cash	30	**2,590**	1,606
Cash and cash equivalents	30	**97,814**	105,697
		217,080	178,446
Total assets		**723,521**	554,672

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 RMB'Million	2017 RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	31	**–**	–
Share premium	31	**27,294**	22,204
Shares held for share award schemes	31	**(4,173)**	(3,970)
Other reserves	2.2(a), 32	**729**	35,158
Retained earnings	2.2(a)	**299,660**	202,682
		323,510	256,074
Non-controlling interests		**32,697**	21,019
Total equity		**356,207**	277,093
LIABILITIES			
Non-current liabilities			
Borrowings	34	**87,437**	82,094
Notes payable	35	**51,298**	29,363
Long-term payables	36	**4,797**	3,862
Other financial liabilities	37	**3,306**	2,154
Deferred income tax liabilities	27	**10,964**	5,975
Deferred revenue	5(c) (i)	**7,077**	2,391
		164,879	125,839

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 RMB'Million	2017 RMB'Million
Current liabilities			
Accounts payable	38	**73,735**	50,085
Other payables and accruals	39	**33,312**	29,433
Borrowings	34	**26,834**	15,696
Notes payable	35	**13,720**	4,752
Current income tax liabilities		**10,210**	8,708
Other financial liabilities	37	**1,200**	–
Other tax liabilities		**1,049**	934
Deferred revenue	5(c) (i)	**42,375**	42,132
		202,435	151,740
Total liabilities		**367,314**	277,579
Total equity and liabilities		**723,521**	554,672

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 132 to 264 were approved by the Board of Directors on 21 March 2019 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 2018

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 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 (Note 2.2(a))	–	–	–	(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 2018

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
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 of a subsidiary	–	–	–	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	–	5,090	(203)	861	(7,512)	(1,764)	10,257	8,493
Balance at 31 December 2018	–	27,294	(4,173)	729	299,660	323,510	32,697	356,207

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2017	–	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247
Comprehensive income								
Profit for the year	–	–	–	–	71,510	71,510	961	72,471
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates and joint ventures	–	–	–	907	–	907	–	907
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	16,854	–	16,854	–	16,854
– transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(2,561)	–	(2,561)	–	(2,561)
– currency translation differences	–	–	–	(9,198)	–	(9,198)	(118)	(9,316)
– other fair value gains, net	–	–	–	706	–	706	–	706
Total comprehensive income for the year	–	–	–	6,708	71,510	78,218	843	79,061
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	60	60
Employee share option schemes:								
– value of employee services	–	1,125	–	156	–	1,281	98	1,379
– proceeds from shares issued	–	171	–	–	–	171	–	171
Employee share award schemes:								
– value of employee services	–	4,254	–	407	–	4,661	106	4,767
– shares withheld for share award schemes	–	–	(2,232)	–	–	(2,232)	–	(2,232)
– vesting of awarded shares	–	(1,398)	1,398	–	–	–	–	–
Tax benefit from share-based payments of a subsidiary	–	–	–	244	–	244	–	244
Profit appropriations to statutory reserves	–	–	–	519	(519)	–	–	–
Dividends (Note 15)	–	–	–	–	(5,052)	(5,052)	(943)	(5,995)
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	728	–	(952)	–	(224)	(69)	(293)
Disposal of subsidiaries	–	–	–	–	–	–	(133)	(133)
Dilution of interests in subsidiaries	–	–	–	6,378	–	6,378	7,363	13,741
Transfer of equity interests of subsidiaries to non-controlling interests	–	–	–	(2,045)	–	(2,045)	2,045	–
Lapse of put option granted to non-controlling interests	–	–	–	50	–	50	26	76
Total transactions with equity holders at their capacity as equity holders for the year	–	4,880	(834)	4,757	(5,571)	3,232	8,553	11,785
Balance at 31 December 2017	–	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'Million	2017 RMB'Million
Cash flows from operating activities			
Cash generated from operations	41(a)	**120,964**	120,002
Income tax paid		**(14,521)**	(13,862)
Net cash flows generated from operating activities		**106,443**	106,140
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(3,206)**	(21)
Net outflow of cash in respect of disposals and deemed disposals of subsidiaries		**(201)**	(3)
Purchase of property, plant and equipment, construction in progress and investment properties		**(19,743)**	(12,108)
Proceeds from disposals of property, plant and equipment		**33**	28
Purchase of/prepayment for intangible assets		**(31,877)**	(19,850)
Purchase of/prepayment for land use rights		**(2,441)**	(46)
Payments for acquisition of investments in associates		**(37,776)**	(17,528)
Proceeds from disposals of investments in associates		**429**	608
Payments for acquisition of investments in redeemable instruments of associates		**–**	(16,384)
Proceeds from disposals of investments in redeemable instruments of associates		**–**	507
Payments for acquisition of investments in joint ventures		**(2,352)**	(7,091)
Proceeds from disposals of investments in joint ventures		**–**	9
Payments for acquisition of financial assets at fair value through other comprehensive income		**(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		**(54,141)**	–
Proceeds from disposals of financial assets at fair value through profit or loss		**11,254**	–
Payments for available-for-sale financial assets and related derivative financial instruments		**–**	(47,716)
Proceeds from disposals of available-for-sale financial assets		**–**	4,705

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Payments for loans to investees and others	**(2,523)**	(2,219)
Loans repayments from investees and others	**745**	1,533
Payments for other financial assets	**–**	(995)
Proceeds from settlement of other financial assets	**–**	995
Receipt from maturity of term deposits with initial terms of over three months	**46,227**	86,166
Placement of term deposits with initial terms of over three months	**(67,055)**	(72,520)
Interest received	**4,435**	3,529
Dividends received	**1,724**	2,009
Net cash flows used in investing activities	**(151,913)**	(96,392)
Cash flows from financing activities		
Proceeds from short-term borrowings	**26,463**	16,676
Repayments of short-term borrowings	**(23,545)**	(12,450)
Proceeds from long-term borrowings	**7,237**	33,517
Repayments of long-term borrowings	**(194)**	(5,281)
Net proceeds from issuance of notes payable	**32,547**	–
Repayments of notes payable	**(4,666)**	(3,450)
Proceeds from issuance of ordinary shares	**525**	171
Shares withheld for share award schemes	**(1,967)**	(2,232)
Payments for repurchase of shares	**(783)**	–
Proceeds from issuance of additional equity of non-wholly owned subsidiaries	**7,238**	6,466
Proceeds from disposals of non-controlling interests in non-wholly owned subsidiaries	**157**	106
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(236)**	(927)
Dividends paid to the Company's shareholders	**(6,776)**	(5,052)
Dividends paid to non-controlling interests	**(620)**	(946)
Net cash flows generated from financing activities	**35,380**	26,598

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Net (decrease)/increase in cash and cash equivalents	**(10,090)**	36,346
Cash and cash equivalents at beginning of the year	**105,697**	71,902
Exchange gains/(losses) on cash and cash equivalents	**2,207**	(2,551)
Cash and cash equivalents at end of the year	**97,814**	105,697

The notes on pages 143 to 264 are an integral part of these consolidated financial statements.

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") and online advertising services to users in the People's Republic of China (the "PRC").

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

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

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.3(a) and Note 46) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 46.

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, financial assets at fair value through other comprehensive income, 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(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 2018:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 2 (amendment)	Classification and measurement of share-based payment transactions
IAS 40 (amendment)	Transfers of investment property
IFRIC 22	Foreign currency transactions and advance consideration

The Group has changed its accounting policies following the adoption of IFRS 9 and IFRS 15. Except IFRS 9, the adoption of these new and amended standards does not have significant impact on the consolidated financial statements of the Group, details of which are disclosed in Note 2.2.

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

A number of new standards and interpretations have not come into effect for the financial year beginning 1 January 2018, 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, except IFRS 16 "Lease" as set out below:

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements effective as of the year of ended 31 December 2018 in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB12,294 million, see Note 42. Of these commitments, approximately RMB189 million relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) New standards and interpretations issued but not yet effective (Cont'd)

For the remaining lease commitments, based on management's preliminary assessment, the Group expects to recognise right-of-use assets of approximately RMB10 billion and lease liabilities of approximately RMB10 billion on 1 January 2019. The Group expects that net profit will not be materially changed as a result of adopting the new rules. It will result in reclassification of operating cash flows and financing cash flows relating to the payments of lease liabilities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the consolidated financial statements. However, some additional disclosures will be required from the financial year beginning on 1 January 2019.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses).

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements.

(a) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group's adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Note 2.16 and 2.17 below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognised at the beginning of the current year, with the difference recognised in opening retained earnings.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Changes in accounting policies (Cont'd)

(a) IFRS 9 Financial Instruments (Cont'd)

Classification and measurement

Management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are 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 main effects resulting from this reclassification are as follows:

At 1 January 2018	AFS RMB'Million	RCPS RMB'Million	OFA RMB'Million	FVPL RMB'Million	FVOCI RMB'Million	Total RMB'Million
Opening balance – IAS 39	**127,218**	**22,976**	**5,624**	**–**	**–**	**155,818**
Reclassification of available-for-sale financial assets ("AFS") to financial assets at fair value through profit or loss ("FVPL")	(68,703)	–	–	68,703	–	–
Reclassification of AFS to financial assets at fair value through other comprehensive income ("FVOCI")	(58,515)	–	–	–	58,515	–
Reclassification of investments in redeemable instruments of associates ("RCPS") to FVPL	–	(22,976)	–	22,976	–	–
Reclassification of other financial assets ("OFA") to FVPL	–	–	(3,818)	3,818	–	–
Opening balance – IFRS 9	**–**	**–**	**1,806**	**95,497**	**58,515**	**155,818**

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Changes in accounting policies (Cont'd)

(a) IFRS 9 Financial Instruments (Cont'd)

Classification and measurement (Cont'd)

The main effects resulting from this reclassification on the Group's equity are as follows:

At 1 January 2018	Effect on AFS reserves RMB'Million	Effect on FVOCI reserves RMB'Million	Effect on retained earnings RMB'Million
Opening balance – IAS 39	**31,152**	**–**	**202,682**
Reclassification of AFS to FVPL	**(16,210)**	**–**	**16,210**
Reclassification of AFS to FVOCI	**(14,942)**	**14,942**	**–**
Total impact	**(31,152)**	**14,942**	**16,210**
Opening balance – IFRS 9	**–**	**14,942**	**218,892**

Certain equity investments and debt instruments previously classified as AFS at an aggregated amount of RMB68,703 million were reclassified from AFS to FVPL on 1 January 2018, and accumulated fair value gains of RMB16,210 million were transferred from the AFS reserves to retained earnings on 1 January 2018.

Certain equity investments of RMB58,515 million were reclassified from AFS to FVOCI on 1 January 2018, because these investments are not held for trading and meet the definition of equity instruments from the perspective of the issuer. The Group elected to classify them as FVOCI. As a result, accumulated fair value gains of RMB14,942 million were transferred from the AFS reserves to FVOCI reserves on 1 January 2018.

Investments in RCPS of RMB22,976 million with embedded derivatives of RMB3,818 million previously recorded in OFA were considered in their entirety as a single instrument and were reclassified to FVPL as at 1 January 2018. They do not meet the definition of equity instruments from the perspective of the issuer and they are not eligible to be classified as at amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments of principal and interest. There was no impact on the amounts previously recognised in profit or loss in relation to these assets from the adoption of IFRS 9.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Changes in accounting policies (Cont'd)

(a) IFRS 9 Financial Instruments (Cont'd)

Classification and measurement (Cont'd)

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group did not have any such liabilities.

Derivative and hedging activities

In prior years, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its borrowings carried at floating rates, which were qualified as hedge accounting. The interest rate swaps in place as at 31 December 2017 qualified as cash flow hedges under IFRS 9 and have been thus treated as continuing hedges upon the adoption of the standard.

Impairment of financial assets

The Group has the following types of financial assets subject to the new expected credit loss model under IFRS 9:

- Accounts receivable; and
- Deposits and other receivables.

For accounts receivable, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for accounts receivable were not significant.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for deposits and other receivables were insignificant.

(b) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach, provides specific guidance on contract costs and license arrangements, and also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers of which details are disclosed in Note 5. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively, and since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Subsidiaries

(a) Consolidation

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(i) Business combinations (Cont'd)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Subsidiaries (Cont'd)

(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 46(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. When 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Associates (Cont'd)

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. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any 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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Foreign currency translation (Cont'd)

(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.

(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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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.

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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.13 Intangible assets (Cont'd)

(b) Licensed online contents

Licensed online contents mainly include video and music contents. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Licensed online 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 game licences, copyrights, computer software and technology and non-compete agreements. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations.

Other intangible assets are amortised over their estimated useful lives (generally 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.

2.14 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 46(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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets

(a) Classification and measurement

From 1 January 2018, 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.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(a) Classification and measurement (Cont'd)

- 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 for "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.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(b) Impairment

From 1 January 2018, 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.

(c) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 31 December 2017, the Group classified its financial assets in the following categories: FVPL, loans and receivables and AFS. The classification depended on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determined the classification of its financial assets at initial recognition.

(i) FVPL

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

Classification (Cont'd)

(ii) Loans and receivables

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

(iii) AFS

Investments are designated as AFS if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories are also included in the available-for-sale category. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, AFS and FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of AFS are recognised in other comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated income statement as "Other gains/(losses), net".

Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated income statement as part of interest income. Dividends on AFS equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

- Assets carried at amortised cost

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.16 Investments and other financial assets (Cont'd)

(c) Accounting policies applied until 31 December 2017 (Cont'd)

Impairment (Cont'd)

- Assets classified as AFS

  For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indication that the assets are impaired. If any such evidence of impairment exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

  For debt securities, if any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement - is reclassified from equity and recognised in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Hybrid financial instruments

Hybrid financial instruments held by the Group comprise instruments with redemption features of associates that can be converted to ordinary shares at the option of the holder.

The Group either (i) accounts for different components of the hybrid financial instruments separately or (ii) designates the entire financial instruments as financial assets/liabilities at fair value through profit or loss. The host component is recognised initially at the difference between the fair value of the hybrid financial instrument as a whole and the fair value of the embedded derivatives. The subsequent measurement of the host component and embedded derivatives follow the respective accounting policy of financial instruments as stated in Notes 2.16(c) above and 2.17.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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. 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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 in hand, deposits held at call with banks, money market funds 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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 when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial assets under the put option, a financial liability is initially recognised 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 Group has a financial guarantee contract that represents guarantee provided by the Group in respect of a put arrangement granted by an investee to the employees of its subsidiary.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Financial guarantee contracts (Cont'd)

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.

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 2018, finance cost capitalised was insignificant to the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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.

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 when there is a legally enforceable right to offset current tax assets against current tax liabilities and when 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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

The Group 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Employee benefits (Cont'd)

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

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.

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.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Provisions (Cont'd)

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, 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.

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.30 Revenue recognition (Cont'd)

(a) VAS (Cont'd)

In respect of the Group's VAS services directly delivered to the Group's customers and paid through various third parties 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 (d) 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) 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.30 Revenue recognition (Cont'd)

(b) Online advertising (Cont'd)

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.

(c) Other revenues

The Group's other revenues are primarily derived from provision of FinTech services, cloud services, television series and film production services and other businesses. The Group recognises other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

(d) Principal agent consideration

The Group reports 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.30 Revenue recognition (Cont'd)

(e) 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 (Note 5(c)), and customer loyalty incentives offered to the customers.

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.

(f) 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 arrangements 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.

Accounting policies applied until 31 December 2017

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.32 Dividend income

Dividends are received from FVPL and FVOCI (2017: from AFS). 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.

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

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

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.

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 2018, 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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

As at 31 December 2018, 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 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)**
	13,516	**(12,023)**
As at 31 December 2017		
Monetary assets, current	13,795	1,563
Monetary assets, non-current	1,309	–
Monetary liabilities, current	(2,747)	(15,744)
Monetary liabilities, non-current	(1,833)	(5,115)
	10,524	(19,296)

During the year ended 31 December 2018, the Group reported exchange gains of approximately RMB229 million (2017: RMB152 million) within "Finance costs, net" in the consolidated income statement.

As at 31 December 2018, 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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(ii) Price risk

The Group is exposed to equity price risk mainly arising from investments held by the Group that are classified either as FVPL (Note 23) or FVOCI (Note 24). 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 (2017: AFS) at the end of each reporting period. If prices of the respective instruments held by the Group had been 5% (31 December 2017: 5%) higher/lower as at 31 December 2018, profit for the year would have been approximately RMB4,794 million higher/lower as a result of gains/losses on financial instruments classified as at FVPL, other comprehensive income would have been approximately RMB2,147 million higher/lower as a result of gains/losses on financial instruments classified as at FVOCI (2017: RMB4,069 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 25, 28 and 30.

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 34 and 35, 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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

During the year ended 31 December 2018, 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 2018 have been disclosed in Note 26.

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

	2018	2017
	RMB'Million	RMB'Million
Interest rate swaps		
Carrying amount	**1,663**	1,300
Notional amount	**77,630**	70,184
Maturity date	**2019/6/28~**	2019/6/28~
	2023/12/8	2023/12/8
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 1 January	**181**	756
Change in value of hedged item used to determine hedge effectiveness	**181**	756
Weighted average hedged rate for the year	**1.60%**	1.52%

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

As at 31 December 2018 and 2017, 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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(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 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.

(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

To manage this risk, 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. In addition, the Group has a large number of customers and there is no concentration of credit risk.

The Group's online advertising that are sales to/through advertising agencies or directly to the advertisers are at term of full advances, partial advances or sales on credit according to the Group's credit policies. The credit period granted to the customers is usually not more than 90 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors.

The Group's revenues from VAS are generally paid by end users mainly via online payment channels, whereas the revenues from VAS delivered to its end users through third party platforms are collected by these third party platform providers and remitted to the Group under a credit period within 60 days. In addition, the Group also sells prepaid credits through various channels such as sales agents, telecommunication operators, third party platform providers and Internet cafes, etc. Apart from certain credit periods granted to the telecommunication operators and third party platform providers, full advances are required from other channels.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(ii) Credit risk of accounts receivable (Cont'd)

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. 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 its 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. Management believes that the expected credit loss is immaterial and the credit risk inherent in the Group's outstanding accounts receivable balances due from these counterparties is not significant.

(iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of loans to investees and investees' shareholders, rental deposits and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been 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 default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;

– actual or expected significant changes in the operating results of the debtor;

– significant changes in the expected performance and behavior of the debtor, including changes in the payment status of the debtor.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(iii) Credit risk of other receivables (Cont'd)

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.

Previous accounting policy for impairment of accounts receivable and other receivables is described in note 2.16(c).

(c) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

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.

	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 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**
	137,692	**37,374**	**89,919**	**38,648**	**303,633**
At 31 December 2017					
Non-derivatives:					
Notes payable	5,892	13,832	10,757	7,492	37,973
Long-term payables	–	2,345	905	734	3,984
Borrowings	18,190	10,127	71,663	6,109	106,089
Other financial liabilities	–	–	2,068	–	2,068
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	65,651	–	–	–	65,651
Derivatives:					
Other financial liabilities	–	–	86	–	86
	89,733	26,304	85,479	14,335	215,851

3 FINANCIAL RISK MANAGEMENT (Cont'd)

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	
	2018	2017
	RMB'Million	RMB'Million
Borrowings (Note 34)	**114,271**	97,790
Notes payable (Note 35)	**65,018**	34,115
Total debts	**179,289**	131,905
Adjusted EBITDA (Note)	**118,273**	95,861
Total debts/Adjusted EBITDA ratio	**1.52**	1.38

Note:

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 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 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**
As at 31 December 2017				
AFS	53,574	331	73,313	127,218
OFA	–	1,806	3,818	5,624
Other financial liabilities	–	–	2,154	2,154

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.

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

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 2018, there was no 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 instruments for the years ended 31 December 2018 and 2017:

	Financial assets		Financial liabilities	
	2018	2017	**2018**	2017
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance - IAS 39	**77,131**	65,599	**2,154**	2,576
Adjustment on adoption of IFRS 9 (Note 2.2(a))	**22,976**		**–**	
Opening balance - IFRS 9	**100,107**		**2,154**	
Additions	**51,185**	31,795	**3,301**	–
Disposals/Settlement	**(9,899)**	(7,006)	**–**	–
Transfers	**(93,151)**	(18,641)	**–**	–
Changes in fair value recognised in other comprehensive income	**261**	6,220	**–**	–
Changes in fair value recognised in profit or loss *	**30,485**	4,027	**(1,063)**	(271)
Impairment provision	**–**	(581)	**–**	–
Currency translation differences	**4,946**	(4,282)	**74**	(151)
Closing balance	**83,934**	77,131	**4,466**	2,154
*Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	**6,861**	3,954	**(1,063)**	(271)

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

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: (i) contingent consideration payable related to business combination of the Group; and (ii) guarantee provided by the Group on certain put arrangements of an associate and put options issued by the Group to certain investors of the associate, at a pre-determined pricing formula. 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.

Description	Fair value as at 31 December		Significant unobservable inputs	Range of inputs at 31 December		Relationship of unobservable inputs to fair value
	2018	2017		**2018**	2017	
	RMB'Million	RMB'Million				
Investments in unlisted companies	**83,934**	77,131	Expected volatility	**28% ~ 76%**	31% ~ 59%	The higher the expected volatility, the lower the fair value
Contingent consideration related to business combination	**3,145**	–	Growth rate of net profit	**50%**	N/A	The higher the growth rate, the higher the fair value
			Expected volatility	**15%**	N/A	The higher the expected volatility, the lower the fair value

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

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 2018, the fair value would have increased approximately RMB150 million or decreased approximately RMB171 million. If the expected volatility had been 5% higher or lower as at 31 December 2018, the fair value would have decreased approximately RMB90 million or increased approximately 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(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, 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 33).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD3,533 million (equivalent to approximately RMB2,868 million) in 2018 (2017: HKD2,691 million (equivalent to approximately RMB2,373 million)).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(d) Share-based compensation arrangements (Cont'd)

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 2018, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 88%-97% (31 December 2017: 88%-97%).

(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.

The Group has following reportable segments for the years ended 31 December 2018 and 2017:

– VAS;

– Online advertising; and

– Others.

"Others" segment primarily comprises FinTech services, cloud services, television series and film production services and other services.

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.

5 SEGMENT INFORMATION AND REVENUES

(a) Description of segments and principal activities (Cont'd)

There were no material inter-segment sales during the years ended 31 December 2018 and 2017. 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 2018 and 2017 is as follows:

	Year ended 31 December 2018			
	VAS	**Online advertising**	**Others**	**Total**
	RMB'Million	**RMB'Million**	**RMB'Million**	**RMB'Million**
Segment revenues	**176,646**	**58,079**	**77,969**	**312,694**
Gross profit	**102,685**	**20,806**	**18,629**	**142,120**
Depreciation	**1,996**	**1,376**	**3,658**	**7,030**
Amortisation	**11,663**	**12,462**	**573**	**24,698**

	Year ended 31 December 2017			
	VAS	Online advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	153,983	40,439	43,338	237,760
Gross profit	92,594	14,853	9,478	116,925
Depreciation	1,858	561	1,473	3,892
Amortisation	7,836	10,001	–	17,837

5 SEGMENT INFORMATION AND REVENUES (Cont'd)

(a) Description of segments and principal activities (Cont'd)

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 2018 and 2017, the place of incorporation on the total revenues is as follows:

	2018 RMB'Million	2017 RMB'Million
Revenues		
– Mainland China	**303,657**	229,767
– Others	**9,037**	7,993
	312,694	237,760

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, FVOCI (31 December 2017: investments in associates, RCPs together with embedded deriatives recorded in OFA, investments in joint ventures, and AFS)) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Operating assets		
– Mainland China	**270,373**	219,285
– Others	**83,962**	59,770
Investments		
– Mainland China and Hong Kong	**254,992**	161,903
– North America	**44,835**	52,542
– Europe	**37,451**	34,515
– Asia excluding Mainland China and Hong Kong	**30,148**	26,407
– Others	**1,760**	250
	723,521	554,672

5 SEGMENT INFORMATION AND REVENUES (Cont'd)

(a) Description of segments and principal activities (Cont'd)

As at 31 December 2018, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB282,774 million (31 December 2017: RMB159,563 million) and RMB65,057 million (31 December 2017: RMB42,421 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 2018 and 2017.

(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)).

	2018	2017
	RMB'Million	RMB'Million
Revenue from contracts with customers		
– VAS	**176,646**	153,983
Online games	***103,992***	*97,883*
Social networks	***72,654***	*56,100*
– Online advertising	**58,079**	40,439
Media advertising	***18,306***	*14,829*
Social and others advertising	***39,773***	*25,610*
– Others	**77,969**	43,338
	312,694	237,760

5 SEGMENT INFORMATION AND REVENUES (Cont'd)

(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	
	2018	2017
	RMB'Million	RMB'Million
Contract liabilities:		
VAS	**31,787**	34,360
Online advertising	**9,145**	5,238
Others	**1,105**	232
	42,037	39,830

Note:

(i) Contract liabilities

Contract liabilities mainly comprises 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 (Note 20), 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:

	2018	2017
	RMB'Million	RMB'Million
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
VAS	**34,360**	20,444
Online advertising	**2,681**	1,597
Others	**232**	143
	37,273	22,184

As at 31 December 2018, 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.

7 OTHER GAINS, NET

	2018	2017
	RMB'Million	RMB'Million
Net fair value gains on FVPL (Note (a))	**28,738**	–
Impairment provision for investee companies and intangible assets arising from acquisitions (Note (b))	**(17,577)**	(2,794)
Subsidies and tax rebates	**3,456**	3,971
Net gains on disposals and deemed disposals of investee companies (Note (a), (c))	**2,932**	13,518
Net fair value gains on other financial instruments (Note 26, 37)	**1,019**	4,298
Donations to Tencent Charity Funds	**(730)**	(820)
Dividend income	**686**	1,713
Others (Note (d))	**(1,810)**	254
	16,714	20,140

Note:

(a) Net fair value gains on FVPL included aggregate gains of approximately 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 redeemable instruments or preferred shares into ordinary shares with board representative upon their respective initial public offering ("IPO"). In 2017, aggregate gains of approximately RMB3,663 million arising from the similar transactions were recognised in net gains on disposals and deemed disposals of investee companies.

(b) The impairment provision for investee companies and intangible assets arising from acquisitions mainly comprised the following:

	2018	2017
	RMB'Million	RMB'Million
Investments in associates (Note 20)	**14,069**	1,277
Investments in joint ventures (Note 21)	**2,328**	–
Intangible assets arising from acquisitions	**1,180**	239
RCPS	**–**	607
AFS	**–**	671
	17,577	2,794

7 OTHER GAINS, NET (Cont'd)

Note: (Cont'd)

(c) The disposal and deemed disposal gains during the year ended 31 December 2018 mainly comprised the following:

- net gains of approximately RMB1,661 million (2017: RMB6,229 million) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 20). These investee companies are principally engaged in Internet-related business;
- aggregate net gains of approximately RMB1,271 million (2017: RMB3,626 million) on disposals, acquisition achieved in stages or partial disposals of various investments of the Group.

(d) Included one-off expenses of RMB1,519 million recognised by a non-wholly owned subsidiary of the Group arising from the issuance of ordinary shares to strategic partners.

8 EXPENSES BY NATURE

	2018	2017
	RMB'Million	RMB'Million
Employee benefits expenses (Note (a) and Note 13)	**42,153**	34,866
Content costs (excluding amortisation of intangible assets)	**39,061**	28,177
Channel and distribution costs	**32,821**	25,109
Bandwidth and server custody fees	**15,818**	11,203
Promotion and advertising expenses	**19,806**	13,661
Operating lease rentals in respect of office buildings	**1,614**	1,335
Travelling and entertainment expenses	**1,450**	1,040
Amortisation of intangible assets (Note (b) and Note 19)	**25,616**	18,622
Depreciation of property, plant and equipment (Note 16)	**8,396**	4,850
Auditor's remuneration		
– Audit services	**83**	76
– Audit-related services	**27**	15
– Non-audit services	**26**	21

Note:

(a) During the year ended 31 December 2018, the Group incurred expenses for the purpose of research and development of approximately RMB22,936 million (2017: RMB17,456 million), which comprised employee benefits expenses of RMB19,088 million (2017: RMB14,766 million).

No significant development expenses had been capitalised for the years ended 31 December 2018 and 2017.

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

9 FINANCE COSTS, NET

	2018 RMB'Million	2017 RMB'Million
Interest and related expenses	**4,898**	3,060
Exchange gains	**(229)**	(152)
	4,669	2,908

Interest and related expenses mainly arose from the borrowings and notes payable disclosed in Notes 34 and 35.

10 SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES

	2018 RMB'Million	2017 RMB'Million
Share of profit of associates (Note 20)	**1,301**	730
Share of profit of joint ventures (Note 21)	**186**	91
	1,487	821

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 2018 and 2017.

(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 2018 and 2017.

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

(iii) PRC corporate income tax

PRC corporate income tax has been provided for at the 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 the PRC for the years ended 31 December 2018 and 2017. The general PRC corporate income tax rate is 25% in 2018 and 2017.

Certain subsidiaries of the Group in the PRC 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 2018 and 2017. Moreover, according to the announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise is subject to a preferential corporate income tax rate of 10%.

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the Company are entitled to other tax concessions and they are exempt from corporate income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation, after offsetting tax losses generated in prior years.

(iv) Corporate income tax in other countries

Income tax on profit 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 the PRC 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.

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

The income tax expense of the Group is analysed as follows:

	2018	2017
	RMB'Million	RMB'Million
Current income tax	15,091	15,154
Deferred income tax (Note 27)	(609)	590
	14,482	15,744

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 (2017: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2018	2017
	RMB'Million	RMB'Million
Profit before income tax	94,466	88,215
Share of profit of associates and joint ventures	(1,487)	(821)
	92,979	87,394
Tax calculated at a tax rate of 25%	23,245	21,848
Effects of different tax rates applicable to different subsidiaries of the Group	(14,668)	(10,442)
Effects of tax holiday on assessable profit of certain subsidiaries	(958)	(715)
Income not subject to tax	(43)	(25)
Expenses not deductible for tax purposes	1,434	1,087
Withholding tax on earnings expected to be remitted by subsidiaries (Note 27)	3,360	3,150
Unrecognised deferred income tax assets	2,378	1,004
Others	(266)	(163)
Income tax expense	14,482	15,744

11 TAXATION (Cont'd)

(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)	Sales value of goods sold and services fee income, offsetting by VAT on purchases
Construction fee for cultural undertakings	3%	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

Note:

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.

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.

	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	**78,719**	71,510
Weighted average number of ordinary shares in issue (million shares)	**9,444**	9,411
Basic EPS (RMB per share)	**8.336**	7.598

(b) Diluted

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

12 EARNINGS PER SHARE (Cont'd)

(b) Diluted (Cont'd)

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the years ended 31 December 2018 and 2017, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted EPS.

	2018	2017
Profit attributable to equity holders of the Company (RMB'Million)	**78,719**	71,510
Weighted average number of ordinary shares in issue (million shares)	**9,444**	9,411
Adjustments for share options and awarded shares (million shares)	**124**	125
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**9,568**	9,536
Diluted EPS (RMB per share)	**8.228**	7.499

13 EMPLOYEE BENEFITS EXPENSES

	2018 RMB'Million	2017 RMB'Million
Wages, salaries and bonuses	**28,236**	24,194
Contributions to pension plans (Note)	**2,553**	1,934
Share-based compensation expenses	**7,900**	6,253
Welfare, medical and other expenses (Note)	**3,355**	2,400
Training expenses	**109**	85
	42,153	34,866

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

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 2018 and 2017 are listed below:

	Percentage
Pension insurance	12.0 ~ 20.0%
Medical insurance	5.2 ~ 11.5%
Unemployment insurance	0.5 ~ 1.5%
Housing fund	10.0 ~ 12.0%

(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:

	2018	2017
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**329,721**	285,322
Contributions to pension plans	**874**	891
Share-based compensation expenses	**1,555,671**	1,174,316
	1,886,266	1,460,529

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

(a) Senior management's emoluments (Cont'd)

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

	Number of individuals	
	2018	2017
Emolument bands		
HKD800,000 ~ HKD15,000,000	**1**	1
HKD40,000,001 ~ HKD65,000,000	**1**	2
HKD65,000,001 ~ HKD115,000,000	**4**	5
HKD115,000,001 ~ HKD165,000,000	**4**	2
HKD215,000,001 ~ HKD815,000,000	**2**	2

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2018 (2017: 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 2018 and 2017. The emoluments paid/payable to the remaining four (2017: four) individuals during the year were as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and bonuses	**393,071**	325,416
Contributions to pension plans	**11,872**	10,909
Share-based compensation expenses	**968,642**	805,807
Allowances and benefits in kind	**84**	39
	1,373,669	1,142,171

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

(b) Five highest paid individuals (Cont'd)

The emoluments of the above four individuals (2017: four) fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HKD196,500,001 ~ HKD197,000,000	**2**	–
HKD228,500,001 ~ HKD229,000,000	**–**	2
HKD430,000,001 ~ HKD430,500,000	**–**	1
HKD477,500,001 ~ HKD478,000,000	**–**	1
HKD545,500,001 ~ HKD546,000,000	**1**	–
HKD628,000,001 ~ HKD628,500,000	**1**	–

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 2018:

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)	1,235	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
	5,975	65,683	118	296,509	145	368,430

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

(a) Directors' and the chief executive's emoluments (Cont'd)

During the year ended 31 December 2017:

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)	1,176	44,656	105	–	–	45,937
Lau Chi Ping Martin	1,176	31,580	–	204,441	65	237,262
Iain Ferguson Bruce	920	–	–	3,811	–	4,731
Ian Charles Stone	836	–	–	3,811	–	4,647
Li Dong Sheng	627	–	–	1,905	–	2,532
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	627	–	–	1,406	–	2,033
	5,362	76,236	105	215,374	65	297,142

Note:

(i) Allowances and benefits in kind include leave pay, insurance premium and club membership.

(ii) During the year ended 31 December 2018, 3,215,800 options were granted to one executive director of the Company (2017: 5,250,000 options were granted to one executive director of the Company), and 39,500 awarded shares were granted to four independent non-executive directors of the Company (2017: 60,000 awarded shares were granted to four independent non-executive directors of the Company).

(iii) 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 2018 and 2017.

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

(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 corporate 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 RMB6,776 million (2017: RMB5,052 million) were paid during the year ended 31 December 2018.

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 a non-wholly owned subsidiary on the New York Stock Exchange. Such dividend was subsequently paid by the Group in February 2019.

A final dividend in respect of the year ended 31 December 2018 of HKD1.00 per share (2017: HKD0.88 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2019 and subject to the approval of the shareholders at the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 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	7,831	14,141	493	17	1,115	23,597
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	7,635	25,581	575	18	1,282	35,091
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	7,635	25,581	575	18	1,282	35,091

16 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2017						
Cost	4,501	20,374	902	31	1,787	27,595
Accumulated depreciation and impairment	(807)	(11,610)	(544)	(18)	(807)	(13,786)
Currency translation differences	–	4	19	–	68	91
Net book amount	3,694	8,768	377	13	1,048	13,900
Year ended 31 December 2017						
Opening net book amount	3,694	8,768	377	13	1,048	13,900
Business combinations	–	–	2	–	2	4
Additions	4,372	9,678	260	10	323	14,643
Disposals	(7)	(32)	(5)	–	(3)	(47)
Depreciation	(228)	(4,243)	(138)	(6)	(235)	(4,850)
Currency translation differences	–	(30)	(3)	–	(20)	(53)
Closing net book amount	7,831	14,141	493	17	1,115	23,597
At 31 December 2017						
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	7,831	14,141	493	17	1,115	23,597

During the year ended 31 December 2018, depreciation of RMB7,030 million (2017: RMB3,892 million), RMB153 million (2017: RMB134 million) and RMB1,213 million (2017: RMB824 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 CONSTRUCTION IN PROGRESS

	2018	2017
	RMB'Million	RMB'Million
Opening net book amount	**3,163**	4,674
Additions	**2,809**	3,204
Transfer to property, plant and equipment	**(1,094)**	(4,682)
Transfer to investment properties	**–**	(31)
Currency translation differences	**1**	(2)
Closing net book amount	**4,879**	3,163

As at 31 December 2018, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.

18 LAND USE RIGHTS

	2018	2017
	RMB'Million	RMB'Million
Opening net book amount	**5,111**	5,174
Additions	**2,348**	46
Amortisation	**(353)**	(109)
Closing net book amount	**7,106**	5,111

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 37 to 50 years.

19 INTANGIBLE ASSETS

	Goodwill RMB'Million	Computer software and technology RMB'Million	Game licences RMB'Million	Licensed online contents RMB'Million	Copyrights RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2018							
Cost	24,143	2,947	2,759	33,549	1,066	3,225	67,689
Accumulated amortisation and impairment	(564)	(1,437)	(1,441)	(21,961)	(747)	(1,277)	(27,427)
Currency translation differences	29	(6)	16	(18)	8	(25)	4
Net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266
Year ended 31 December 2018							
Opening net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266
Business combinations	9,587	454	–	420	–	1,440	11,901
Additions	–	522	165	30,808	345	392	32,232
Disposals	–	–	(44)	(1,156)	(21)	(29)	(1,250)
Amortisation	–	(457)	(402)	(24,112)	(155)	(490)	(25,616)
Impairment provision	(784)	(187)	–	–	(1)	(209)	(1,181)
Currency translation differences	194	14	1	74	2	13	298
Closing net book amount	32,605	1,850	1,054	17,604	497	3,040	56,650
At 31 December 2018							
Cost	33,730	3,902	1,496	51,254	1,370	4,971	96,723
Accumulated amortisation and impairment	(1,348)	(2,060)	(459)	(33,706)	(883)	(1,919)	(40,375)
Currency translation differences	223	8	17	56	10	(12)	302
Net book amount	32,605	1,850	1,054	17,604	497	3,040	56,650

19 INTANGIBLE ASSETS (Cont'd)

	Goodwill RMB'Million	Computer software and technology RMB'Million	Game licences RMB'Million	Licensed online contents RMB'Million	Copyrights RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2017							
Cost	23,157	2,643	3,515	20,880	869	3,147	54,211
Accumulated amortisation and impairment	(439)	(1,118)	(1,900)	(13,121)	(630)	(796)	(18,004)
Currency translation differences	209	10	20	17	3	1	260
Net book amount	22,927	1,535	1,635	7,776	242	2,352	36,467
Year ended 31 December 2017							
Opening net book amount	22,927	1,535	1,635	7,776	242	2,352	36,467
Business combinations	998	–	–	45	–	38	1,081
Additions	–	320	170	21,017	207	172	21,886
Disposals	(13)	(3)	(19)	(12)	(3)	(1)	(51)
Amortisation	–	(332)	(448)	(17,221)	(124)	(497)	(18,622)
Impairment provision	(124)	–	–	–	–	(115)	(239)
Currency translation differences	(180)	(16)	(4)	(35)	5	(26)	(256)
Closing net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266
At 31 December 2017							
Cost	24,143	2,947	2,759	33,549	1,066	3,225	67,689
Accumulated amortisation and impairment	(564)	(1,437)	(1,441)	(21,961)	(747)	(1,277)	(27,427)
Currency translation differences	29	(6)	16	(18)	8	(25)	4
Net book amount	23,608	1,504	1,334	11,570	327	1,923	40,266

19 INTANGIBLE ASSETS (Cont'd)

During the year ended 31 December 2018, amortisation of RMB24,698 million (2017: RMB17,837 million) and RMB918 million (2017: RMB785 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2018, impairment losses of RMB1,181 million (2017: RMB239 million) on goodwill and other intangible assets were charged to the consolidated income statement under "Other gains/(losses), net", resulting from revisions of financial/business outlook and changes in the market environment of the underlying business.

Impairment tests for goodwill

Goodwill was allocated to VAS segment with RMB25,672 million (31 December 2017: RMB23,608 million) and Others segment with RMB6,933 million (31 December 2017: Nil). 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 (group of CGUs) is the higher of its value in use and fair value less costs of disposal.

The key assumptions used for the calculation of the recoverable amounts of the CGUs under impairment testing were as follows:

For goodwill attributable to the Group's online music business, online literature business and television series and film production business, value in use was determined using discounted cash flows calculations which derived from the five-year financial projections plus a terminal value related to cash flows beyond the projection period extrapolated using an estimated terminal growth rate of not more than 5% (2017: not more than 5%). Management leveraged their experiences in the industries and provided forecast based on past performance and their anticipation of future business and market developments. Pre-tax discount rates ranging from 15% to 25% (2017: 20% to 25%) were applied in the discounted cash flows calculations, which reflected assessments of time value and the specific risks relating to the respective industries.

For goodwill attributable to the Group's online game business, fair value less costs of disposal was determined based on ratios of EV (enterprise value) divided by EBITDA (earnings before interest, tax, depreciation and amortization) of several comparable public companies (ranging with 11-21x) (2017: ranging with 16-23x) multiplied by the EBITDA of the related CGU (group of CGUs) and discounted for the lack of marketability at a range of 10% to 20% (2017: 10% to 20%). The comparable public companies were chosen based on factors such as industry similarity, company size, profitability and financial risks.

When determining the recoverable amounts, management has not identified reasonably possible change in key assumptions that could cause the CGU's (group of CGUs') carrying amount to exceed the recoverable amount.

20 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**130,633**	60,935
– Unlisted entities	**88,582**	52,844
	219,215	113,779

	2018	2017
	RMB'Million	RMB'Million
At beginning of the year	**113,779**	70,042
Additions (Note (a))	**40,918**	19,122
Transfers (Note (b))	**71,593**	20,825
Deemed disposal gains (Note 7(c))	**1,661**	9,892
Share of profit of associates (Note 10)	**1,301**	730
Share of other comprehensive income of associates	**24**	907
Share of other changes in net assets of associates	**2,861**	–
Impairment provision (Note (c))	**(14,069)**	(1,277)
Dividends	**(908)**	(312)
Disposals	**(725)**	(253)
Currency translation differences	**2,780**	(5,897)
At end of the year	**219,215**	113,779

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note:

(a) During the year ended 31 December 2018, the Group's additions to investments in associates mainly comprised the following:

(i) an additional investment in an eCommerce company in the PRC of approximately RMB7,456 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 17% on an outstanding basis;

(ii) an additional investment in a media and entertainment company in the PRC of approximately RMB4,800 million which was previously recognised as FVPL. Subsequently, such investment of approximately RMB3,461 million was transferred to investment in a subsidiary through an acquisition made by a non-wholly owned subsidiary (Note 40(a));

(iii) an additional investment in a media and entertainment company in the PRC of approximately RMB3,998 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 43% on an outstanding basis;

(iv) an new investment in an online game company in the PRC of approximately RMB2,985 million to subscribe for approximately 12% of its equity interests on an outstanding basis;

(v) subscription of certain additional shares of a leading eCommerce platform for services in the PRC upon its IPO of approximately RMB2,757 million. Immediately before its IPO, the Group's investment in this investee company of approximately RMB48,173 million was classified as FVPL (Note 20(b)), and subsequently transferred to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares with board representation upon its IPO. As at 31 December 2018, the Group's equity interests in this investee company are approximately 19% on an outstanding basis;

(vi) an investment in an investment bank in the PRC of approximately RMB2,316 million to subscribe for approximately 5% of its equity interests on an outstanding basis; and

(vii) new investments in other associates and additional investments in existing associates, with an aggregate amount of approximately RMB16,606 million. These associates are principally engaged in online games, smart retails, technology and other Internet-related business.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(b) During the year ended 31 December 2018, transfers comprised of associates achieved in stages of an aggregate amount of approximately RMB75,931 million, and associates transferred to financial instruments or subsidiaries of an aggregate amount of approximately RMB4,338 million. In addition to the transfer described in Note 20(a) (v) and Note 23(a) (iii), the transfers in relation to associates achieved in stages mainly include:

(i) an acquisition of approximately 4% in a commercial property company in the PRC at a consideration of approximately RMB10,266 million was carried out in certain tranches and completed in September 2018. The board representation was effective upon the completion of final tranche and the investment was transferred from FVPL accordingly;

(ii) an investment in an Indian eCommerce company of approximately RMB5,386 million was transferred from FVPL, due to certain contractual rights attached to this investment having been changed;

(iii) the Group transferred several investments from FVPL to investments in associates at an aggregate amount of approximately RMB5,426 million upon the conversion of the redeemable instruments or preferred shares into ordinary shares upon their IPOs, mainly comprising investee companies that are principally engaged in automotive industry; and

(iv) the Group also transferred several other investments from FVPL to investments in associates at an aggregate amount of approximately RMB2,009 million as a result of obtaining board representation.

(c) 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 RMB14,069 million (2017: RMB1,277 million) against the carrying amounts of certain investments in associates during the year ended 31 December 2018, which includes impairment loss of approximately RMB15,684 million recognised and approximately RMB1,615 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.

(d) 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.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

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

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profit/(loss) from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income/(loss) RMB'Million	Fair value of stakes in listed associates as at 31 December RMB'Million
2018							
Listed entities	**210,311**	**79,678**	**126,027**	**(3,337)**	**25**	**(3,312)**	**187,339**
Non-listed entities	**225,799**	**137,217**	**47,081**	**4,638**	**(1)**	**4,637**	
	436,110	**216,895**	**173,108**	**1,301**	**24**	**1,325**	
2017							
Listed entities	103,999	43,064	84,022	505	845	1,350	156,968
Non-listed entities	128,028	75,184	25,659	225	62	287	
	232,027	118,248	109,681	730	907	1,637	

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20% and associates with shareholding over 50%, with total carrying amounts of RMB149,175 million and RMB24,948 million as at 31 December 2018, respectively (31 December 2017: RMB56,768 million and RMB18,836 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.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Particulars of a material associate of the Group, as determined by the directors, are set out below:

Name of entity	Place of incorporation	Interest held indirectly	Principal activities/place of operation
Meituan Dianping	PRC	19.06%	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 2018 RMB'Million
Summarised consolidated balance sheet	
Current assets	73,150
Non-current assets	47,512
Current liabilities	31,825
Non-current liabilities	2,327
Total equity	86,510
Reconciliation to carrying amounts:	
Net assets	86,510
Group's share in %	19.06%
Group's share in RMB	16,489
Goodwill and others	33,756
Carrying amount	50,245

20 INVESTMENTS IN ASSOCIATES (Cont'd)

As at 31 December 2018, the fair value of the investment in Meituan Dianping which is a listed entity was RMB40,261 million.

There were no material contingent liabilities relating to the Group's interests in the associates.

Transactions with associates

During the year ended 31 December 2018, the Group had undertaken transactions relating to provision of FinTech services, online traffic, online advertising and other online services to certain associates (including Meituan Dianping), under but not limited to certain co-operation arrangements. The revenues recorded by the Group from the aforesaid co-operation arrangements during the years ended 31 December 2018 and 2017 were considered to be insignificant.

21 INVESTMENTS IN JOINT VENTURES

As at 31 December 2018, the Group's investments in joint ventures of RMB8,575 million (31 December 2017: RMB7,826 million) mainly comprised 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 businesses.

Share of profit amounting to RMB186 million was recognised during the year ended 31 December 2018 (2017: RMB91 million) (Note 10).

During the year ended 31 December 2018, the Group made an aggregate impairment provision of RMB2,328 million (2017: Nil) against the carrying amounts of the investments in joint ventures, based on the respective assessed recoverable amount.

22 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2018, the financial instruments of the Group is analysed as follows:

	As at 31 December	
	2018	2017
Financial assets	**RMB'Million**	RMB'Million
Financial assets at amortised cost:		
Deposits and other receivables (Note 25)	**10,757**	9,486
Term deposits (Note 28)	**62,918**	42,089
Accounts receivable (Note 29)	**28,427**	16,549
Cash and cash equivalents (Note 30(a))	**97,814**	105,697
Restricted cash (Note 30(b))	**2,590**	1,606
RCPS	**–**	22,976
FVPL (Note 23)	**97,877**	–
FVOCI (Note 24)	**43,519**	–
OFA (Note 26)	**2,032**	5,624
AFS	**–**	127,218
	345,934	331,245
Financial liabilities		
Financial liabilities at amortised cost:		
Borrowings (Note 34)	**114,271**	97,790
Notes payable (Note 35)	**65,018**	34,115
Long-term payables (Note 36)	**4,797**	3,862
Accounts payable (Note 38)	**73,735**	50,085
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 39)	**16,841**	15,566
Other financial liabilities	**4,506**	2,154
	279,168	203,572

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.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FVPL include the following:

	As at 31 December 2018 RMB'Million
Included in non-current assets:	
Investments in listed entities	
– Japan	3,360
– United Kingdom	2,613
– United States	1,442
– Sweden	539
– Mainland China	537
– Hong Kong	398
– South Korea	234
	9,123
Investments in unlisted entities	78,234
Others	4,345
	91,702
Included in current assets:	
Treasury investments and others	6,175
	97,877

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Movement of FVPL is analysed as follows:

	2018 RMB'Million
At beginning of the year	–
Adjustment on adoption of IFRS 9 (Note 2.2(a))	95,497
Additions (Note (a))	60,807
Transfers (Note (b))	(78,816)
Changes in fair value (Note 7(a))	28,738
Disposals (Note (c))	(14,805)
Currency translation differences	6,456
At end of the year	97,877

Note:

(a) During the year ended 31 December 2018, the Group's additions to FVPL mainly comprised the following:

(i) an investment in a commercial property company in the PRC which was carried out in certain tranches and completed in September 2018 as detailed in Note 20(b) (i);

(ii) an additional investment in a real estate O2O platform of approximately RMB3,478 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 7% on an outstanding basis;

(iii) an investment in a media and entertainment company of approximately RMB2,922 million to subscribe for approximately 35% of its equity interests in form of preferred shares, on an outstanding basis. Immediately before its IPO, the Group's investment in this investee company of approximately RMB4,671 million was classified as FVPL and subsequently transferred to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares upon its IPO. As at 31 December 2018, the Group's equity interests in this investee company are approximately 32% on an outstanding basis;

(iv) additional equity interests obtained in a disposal of the equity interests in an investee company, to another investee company of the Group at a total consideration of approximately USD551 million (equivalent to approximately RMB3,481 million) comprised of cash and its equity interests. The acquirer is principally engaged in the provision of Internet-related services, and the investment in this acquirer was reclassified to investment in an associate due to the conversion of preferred shares held by the Group to ordinary shares with board representation upon its IPO as described in Note 20(a) (v) above;

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Note: (Cont'd)

(a) (Cont'd)

(v) an additional investment in an Asian online game company of approximately RMB2,799 million. Subsequent to the additional investment, the Group obtained the board representation and the investment was transferred to investment in an associate accordingly;

(vi) an additional investment in a media and entertainment company of approximately RMB2,536 million. As at 31 December 2018, the Group's equity interests in this investee company are approximately 14% on an outstanding basis; and

(vii) new investments and additional investments with an aggregate amounts of approximately RMB36,263 million in listed and unlisted entities mainly operated in the United States, the PRC and other Asian countries. These companies are principally engaged in online games, entertainment, technology and other Internet-related business.

(b) During the year ended 31 December 2018, in addition to the transfers of FVPL to investments in associates with an aggregate amount of approximately RMB75,931 million described in Note 20(b) above, the transfers mainly include:

(i) the Group designated certain investments with an aggregate amount of approximately RMB3,577 million as FVOCI upon their IPOs, and these investments were previously recorded as FVPL due to the form of redeemable instruments or preferred shares; and

(ii) the Group also transferred certain investments with an aggregate amount of approximately RMB692 million from investments in associates to FVPL as a result of changes in nature of these investments.

(c) During the year ended 31 December 2018, the Group disposed of certain investments with an aggregate amount of RMB14,805 million, which are mainly engaged in the provision of Internet-related services.

(d) During the year ended 31 December 2018, the Group made a large number of individual investments recognised as FVPL, but none of them was significant enough to trigger the disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time when the Group made such investments.

(e) 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.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

	As at 31 December 2018 RMB'Million
Equity investments in listed entities	
– United States	**33,120**
– Mainland China	**5,365**
– France	**3,093**
	41,578
Others	**1,941**
	43,519

Movement of FVOCI is analysed as follows:

	2018 RMB'Million
At beginning of the year	**–**
Adjustment on adoption of IFRS 9 (Note 2.2(a))	**58,515**
Additions (Note (a))	**17,689**
Transfers (Note 23(b))	**3,577**
Changes in fair value	**(16,578)**
Disposals (Note (b))	**(22,200)**
Currency translation differences	**2,516**
At end of the year	**43,519**

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Cont'd)

Note:

(a) During the year ended 31 December 2018, the Group's additions to FVOCI mainly comprised the following:

(i) a new investment in a retail company in the PRC of approximately RMB4,216 million to acquire approximately 5% of its equity interests on an outstanding basis;

(ii) an additional investment in an Internet-related company in the United States of approximately RMB3,712 million to further acquire approximately 3% of its equity interests on an outstanding basis;

(iii) a new investment in an online game company in France of approximately RMB2,900 million, to acquire approximately 5% of its equity interests on an outstanding basis;

(iv) an additional investment in a media and entertainment company listed on the New York Stock Exchange of approximately RMB2,508 million, to further acquire certain equity interests;

(v) an additional investment in a media and entertainment company in the PRC of approximately RMB2,191 million, to acquire approximately 7% of its equity interests on an outstanding basis; and

(vi) certain new investments and additional investments with an aggregate amount of approximately RMB2,162 million, most of which are principally engaged in technology services and operate in the PRC.

(b) During the year ended 31 December 2018, the Group partially disposed of certain listed investments, with total gains of approximately RMB9,561 million on disposals of FVOCI transferred from other reserves to retained earnings.

25 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	**13,652**	7,031
Loans to investees and investees' shareholders (Note (a))	**3,864**	2,058
Running royalty fees for online games (Note (b))	**99**	149
Prepayments for capital investments in investees	**619**	34
Others	**3,297**	1,901
	21,531	11,173
Included in current assets:		
Prepayments and prepaid expenses	**7,532**	6,681
Running royalty fees for online games (Note (b))	**5,230**	4,095
Interest receivables	**1,697**	2,703
Refundable value-added tax	**915**	579
Loans to investees and investees' shareholders (Note (a))	**225**	521
Rental deposits and other deposits	**693**	220
Dividend and other investment-related receivables	**338**	222
Others	**1,863**	2,089
	18,493	17,110
	40,024	28,283

Note:

(a) As at 31 December 2018, 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 2017: not higher than 8.0% per annum).

(b) Running royalty fees for online games comprises of prepaid royalty fees, unamortised running royalty fees and deferred Online Service Fees.

As at 31 December 2018, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax), were approximate to their fair values. Deposits and other assets were neither past due nor impaired.

26 OTHER FINANCIAL ASSETS

Other financial assets were measured at their fair values.

Included in non-current assets:

As at 31 December 2018, the Group's non-current other financial assets comprised interest rate swap contracts of RMB1,693 million for interest rate hedging purpose, which swap the floating interest rates into fixed interest rates. The aggregate notional principal amounts of the Group's outstanding interest rate swap contracts were USD11,311 million (equivalent to approximately RMB77,630 million) (31 December 2017: USD10,741 million (equivalent to approximately RMB70,184 million)). These interest rate swap contracts were qualified for hedge accounting. (31 December 2017: the Group's non-current other financial assets also included the embedded derivatives bifurcated from their host contracts which mainly comprised the conversion options bifurcated from their corresponding host components that were classified as AFS and investments in redeemable instruments of associates of RMB3,818 million.)

Included in current assets:

As at 31 December 2018, the Group's current other financial assets mainly comprised call option rights held by the Group to acquire additional equity interests in an investee company of the Group, amounting to RMB312 million (31 December 2017: RMB465 million).

27 DEFERRED INCOME TAXES

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

There was no offsetting of deferred income tax assets and liabilities in 2018 and 2017.

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**7,216**	4,510
– to be recovered within 12 months	**8,539**	5,283
	15,755	9,793
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(9,834)**	(5,583)
– to be recovered within 12 months	**(1,130)**	(392)
	(10,964)	(5,975)

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

	2018	2017
	RMB'Million	RMB'Million
At beginning of the year	**3,818**	1,880
Credited/(charged) to consolidated income statement (Note 11)	**609**	(590)
Withholding tax paid	**1,773**	2,451
Credited to consolidated statement of changes in equity	**187**	164
Business combinations	**(501)**	(21)
Other additions	**(986)**	–
Currency translation differences	**(109)**	(66)
At end of the year	**4,791**	3,818

27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax assets were as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	Total RMB'Million
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**
At 1 January 2017	642	189	3,661	2,541	7,033
Credited/(charged) to consolidated income statement	1,260	(93)	1,904	(275)	2,796
Credited to consolidated statement of changes in equity	–	–	–	46	46
Currency translation differences	–	–	–	(82)	(82)
At 31 December 2017	1,902	96	5,565	2,230	9,793

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 2018, the Group did not recognise deferred income tax assets of RMB1,351 million (31 December 2017: RMB1,129 million) in respect of cumulative tax losses amounting to RMB6,277 million (31 December 2017: RMB4,997 million). These tax losses will expire from 2019 to 2023.

27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax liabilities were as follows:

	Deferred income tax liabilities on temporary differences arising from						
	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 (2017: AFS) RMB'Million	Deemed disposals of investees RMB'Million	Accelerated tax depreciation RMB'Million	Others RMB'Million	Total RMB'Million
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)**
At 1 January 2017	(607)	(3,391)	(269)	(425)	–	(461)	(5,153)
Business combinations	(21)	–	–	–	–	–	(21)
Credited/(charged) to consolidated income statement	121	(3,150)	–	(354)	–	(3)	(3,386)
Withholding tax paid	–	2,451	–	–	–	–	2,451
Credited to consolidated statement of changes in equity	–	–	118	–	–	–	118
Currency translation differences	1	15	–	–	–	–	16
At 31 December 2017	(506)	(4,075)	(151)	(779)	–	(464)	(5,975)

As at 31 December 2018, the Group recognised the relevant deferred income tax liabilities of RMB5,668 million (31 December 2017: RMB4,075 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 RMB13,685 million (31 December 2017: RMB32,213 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.

28 TERM DEPOSITS

An analysis of the Group's term deposits by currencies are as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	–	5,358
Other currencies	–	7
	–	5,365
Included in current assets:		
RMB term deposits	**55,180**	30,701
USD term deposits	**6,349**	4,187
Other currencies	**1,389**	1,836
	62,918	36,724
	62,918	42,089

The effective interest rate for the term deposits of the Group with initial terms of over three months during the year ended 31 December 2018 was 4.08% (2017: 3.86%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2018, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

29 ACCOUNTS RECEIVABLE

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Accounts receivable	**29,784**	17,429
Loss allowance	**(1,357)**	(880)
	28,427	16,549

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

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	**11,200**	4,399
31 ~ 60 days	**7,695**	6,394
61 ~ 90 days	**4,201**	2,259
Over 90 days	**5,331**	3,497
	28,427	16,549

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	
	2018	2017
	RMB'Million	RMB'Million
Online advertising customers and agencies	**11,944**	8,076
Content production related customers	**5,400**	2,162
FinTech and cloud customers	**4,260**	1,716
Third party platform providers	**3,877**	3,140
Others	**2,946**	1,455
	28,427	16,549

29 ACCOUNTS RECEIVABLE (Cont'd)

Some online advertising customers and agencies are usually granted with a credit period within 90 days after full execution of the contracted advertisement orders. 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.

As of 31 December 2017, impairment provision was recognised after assessment of the financial condition and credit quality with reference to the past history. 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 2018 and 2017, loss allowance made against the gross amounts of accounts receivable were not significant, and provision matrix is not presented.

As at 31 December 2018, the carrying amounts of accounts receivable approximated their fair values.

30 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Bank balances and cash	**38,696**	48,278
Term deposits and highly liquid investments with initial terms within three months	**59,118**	57,419
	97,814	105,697

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2018 was 3.59% (2017: 2.42%).

Approximately RMB31,015 million (31 December 2017: RMB54,894 million) and RMB3,349 million (31 December 2017: RMB11,740 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 2018, restricted deposits held at bank of RMB2,590 million (31 December 2017: RMB1,606 million) were mainly denominated in RMB.

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

As at 31 December 2018 and 2017, 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 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**
At 1 January 2017	9,477,083,480	–	17,324	(3,136)	14,188
Employee share option schemes:					
– value of employee services	–	–	1,125	–	1,125
– shares issued (Note (a))	4,102,812	–	171	–	171
Employee share award schemes:					
– value of employee services	–	–	4,254	–	4,254
– shares withheld for share award schemes (Note (b))	–	–	–	(2,232)	(2,232)
– shares allotted for share award schemes (Note (c))	17,870,595	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(1,398)	1,398	–
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	728	–	728
At 31 December 2017	9,499,056,887	–	22,204	(3,970)	18,234

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

* As at 31 December 2018, the total number of issued ordinary shares of the Company included 63,275,620 shares (31 December 2017: 70,675,181 shares) held under the Share Award Schemes.

Note:

(a) During the year ended 31 December 2018, 6,891,249 Post-IPO options (2017: 4,102,812 Post-IPO options) with exercise prices ranging from HKD31.70 to HKD272.36 (2017: HKD26.08 to HKD174.86) were exercised.

(b) During the year ended 31 December 2018, the Share Scheme Trust withheld 6,839,643 ordinary shares (2017: 9,303,028 ordinary shares) of the Company for an amount of approximately HKD2,550 million (equivalent to approximately RMB2,187 million) (2017: HKD2,606 million (equivalent to approximately RMB2,232 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2018, the Company allotted 17,206,955 ordinary shares (2017: 17,870,595 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 2018, the Share Scheme Trust transferred 31,446,159 ordinary shares of the Company (2017: 38,573,979 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 33(b)).

(e) During the year ended 31 December 2018, the Company repurchased 2,848,000 of its own shares from the market which were subsequently cancelled. The shares were acquired at prices ranging from HKD265.20 to HKD333.40, with an average price of HKD311.38 per share.

32 OTHER RESERVES

	Capital reserves RMB'Million (Note (a))	AFS RMB'Million	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 31 December 2017, as previously reported	**(2,999)**	**31,152**	**–**	**2,228**	**(3,464)**	**2,273**	**4,170**	**1,798**	**35,158**
Adjustment on adoption of IFRS 9 (Note 2.2(a))	**–**	**(31,152)**	**14,942**	**–**	**–**	**–**	**–**	**–**	**(16,210)**
Balance at 1 January 2018	**(2,999)**	**–**	**14,942**	**2,228**	**(3,464)**	**2,273**	**4,170**	**1,798**	**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 of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**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 the financial liabilities in respect of the put option from business combination	**(406)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(406)**
Dilution of interests in subsidiaries (Note (e))	**2,836**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,836**
Profit appropriations to PRC 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**	**1,809**	**729**

32 OTHER RESERVES (Cont'd)

	Capital reserves RMB'Million (Note (a))	AFS 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 2017	(6,430)	16,859	1,321	5,734	1,754	3,363	1,092	23,693
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	156	–	156
– Employee share award schemes	–	–	–	–	–	407	–	407
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	244	–	244
Acquisition of additional equity interests in non-wholly owned subsidiaries	(952)	–	–	–	–	–	–	(952)
Transfer of equity interests of subsidiaries to non-controlling interests	(2,045)	–	–	–	–	–	–	(2,045)
Lapse of put option granted to non-controlling interests	50	–	–	–	–	–	–	50
Dilution of interests in subsidiaries	6,378	–	–	–	–	–	–	6,378
Profit appropriations to PRC statutory reserves	–	–	–	–	519	–	–	519
Net gains from changes in fair value of AFS	–	16,854	–	–	–	–	–	16,854
Transfer to profit or loss upon disposal of AFS	–	(2,561)	–	–	–	–	–	(2,561)
Share of other comprehensive income of associates and joint ventures	–	–	907	–	–	–	–	907
Currency translation differences	–	–	–	(9,198)	–	–	–	(9,198)
Other fair value gains, net	–	–	–	–	–	–	706	706
Balance at 31 December 2017	(2,999)	31,152	2,228	(3,464)	2,273	4,170	1,798	35,158

32 OTHER RESERVES (Cont'd)

Note:

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

(b) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net 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 33(d)).

(d) The Group has elected to recognise changes in the fair value of certain investment in equity instruments in other comprehensive income, as explained in Note 2.16. 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.

(e) During the year ended 31 December 2018, the dilution of interests in subsidiaries mainly comprised the following:

(i) a non-wholly owned subsidiary of the Group, Tencent Music Entertainment Group ("TME"), have undergone initial public offering by listing of certain of its new shares on the New York Stock Exchange with proceeds of approximately RMB3,520 million, and thus the Group's equity interest in TME was diluted. Given TME remains a subsidiary of the Group following the said initial public offering, this transaction was accounted for as transaction with non-controlling interest with a gain of RMB1,312 million directly recognised in equity; and

(ii) an equity transaction of a non-wholly owned subsidiary described in Note 7(d), which results in the transaction with non-controlling interests of approximately RMB1,121 million.

33 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 expired on 31 December 2011, 23 March 2014 and 16 May 2017, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes.

In respect of the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV which continue 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 10-year period for the Post-IPO Option Scheme III and a 7-year period for the Post-IPO Option Scheme IV after the date of grant of option.

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(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 exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
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**	**51,499,010**	**–**	**–**	**HKD374.52**	**36,277,234**	**87,776,244**
Exercisable as at 31 December 2018	**HKD160.50**	**22,419,156**	**–**	**–**	**HKD274.86**	**1,760,025**	**24,179,181**
At 1 January 2017	HKD120.95	31,247,436	HKD31.70	2,500,000	–	–	33,747,436
Granted	HKD225.44	28,526,215	–	–	HKD273.79	9,219,035	37,745,250
Exercised	HKD49.05	(4,102,812)	–	–	–	–	(4,102,812)
Lapsed/forfeited	HKD142.65	(160,591)	–	–	HKD272.36	(63,175)	(223,766)
At 31 December 2017	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Exercisable as at 31 December 2017	HKD118.70	13,152,006	HKD31.70	1,250,000	–	–	14,402,006

During the year ended 31 December 2018, 3,215,800 options were granted to an executive director of the Company (2017: 5,250,000 options were granted to an executive director of the Company).

As a result of the options exercised during the year ended 31 December 2018, 6,891,249 ordinary shares (2017: 4,102,812 ordinary shares) were issued by the Company (Note 31). The weighted average price of the shares at the time these options were exercised was HKD399.37 per share (equivalent to approximately RMB325.67 per share) (2017: HKD286.46 per share (equivalent to approximately RMB248.41 per share)).

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(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 2018 and 2017 are as follows:

		Number of share options	
Expiry Date	Range of exercise price	**31 December 2018**	31 December 2017
7 years commencing from the date of grant of options (Post-IPO Option Scheme II and Post-IPO Option Scheme IV)	HKD37.80~HKD49.76	**22,875**	1,633,050
	HKD112.30~HKD174.86	**23,504,535**	25,386,768
	HKD225.44~HKD272.36	**36,475,949**	37,556,725
	HKD354.00~HKD386.60	**5,191,480**	–
	HKD403.16~HKD444.20	**22,581,405**	89,565
		87,776,244	64,666,108
10 years commencing from the date of grant of options (Post-IPO Option Scheme III)	HKD31.70	**–**	2,500,000
		87,776,244	67,166,108

The outstanding share options as of 31 December 2018 were divided into two 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 three years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

(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 2018 was HKD127.43 per share (equivalent to approximately RMB103.46 per share) (2017: HKD71.30 per share (equivalent to approximately RMB62.86 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.

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Fair value of options (Cont'd)

	2018	2017
Weighted average share price at the grant date	**HKD405.00**	HKD236.88
Risk free rate	**1.77%~2.27%**	1.39%~1.68%
Dividend yield	**0.24%~0.25%**	0.26%~0.34%
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.

(b) Share award schemes

The Company has adopted two share award schemes (the "Share Award Schemes") as of 31 December 2018, 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 2018 and 2017 are as follows:

	Number of awarded shares	
	2018	2017
At beginning of the year	**63,636,254**	86,365,812
Granted	**20,940,149**	19,071,975
Lapsed/forfeited	**(2,882,349)**	(3,227,554)
Vested and transferred	**(31,446,159)**	(38,573,979)
At end of the year	**50,247,895**	63,636,254
Vested but not transferred as at the end of the year	**45,432**	159,893

33 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes (Cont'd)

During the year ended 31 December 2018, 39,500 awarded shares were granted to four independent non-executive directors of the Company (2017: 60,000 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 2018 was HKD374.32 per share (equivalent to approximately RMB316.30 per share) (2017: HKD274.02 per share (equivalent to approximately RMB238.37 per share)).

The outstanding awarded shares as of 31 December 2018 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 three years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee investment schemes

For aligning 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. 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 2018 and 2017 were insignificant to the Group.

33 SHARE-BASED PAYMENTS (Cont'd)

(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 they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

(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 2018, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 88%~97% (31 December 2017: 88%~97%).

34 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (Note (a))	**70,938**	76,326
Non-current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	**11,189**	4,459
– secured (Note (a))	**–**	475
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	**5,310**	834
	87,437	82,094
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	**16,403**	1,307
HKD bank borrowings, unsecured (Note (b))	**3,368**	14,293
RMB bank borrowings, unsecured (Note (b))	**628**	–
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**5,628**	66
Current portion of long-term RMB bank borrowings,		
– unsecured (Note (a))	**332**	30
– secured (Note (a))	**475**	–
	26,834	15,696
	114,271	97,790

34 BORROWINGS (Cont'd)

Note:

(a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,156 million (31 December 2017: USD11,691 million), RMB11,996 million (31 December 2017: RMB4,964 million) and HKD6,070 million (31 December 2017: HKD1,000 million), respectively. Applicable interest rates are at LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings, and interest rates of 4.18% ~ 9.00% for RMB bank borrowings (31 December 2017: LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 4.275% for RMB bank borrowings) per annum.

The long-term bank borrowings were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Within 1 year	**6,435**	96
Between 1 and 2 years	**18,640**	9,947
Between 2 and 5 years	**68,797**	66,201
More than 5 years	**–**	5,946
	93,872	82,190

(b) The aggregate principal amounts of short-term USD bank borrowings, short-term RMB bank borrowings and short-term HKD bank borrowings were USD2,390 million (31 December 2017: USD200 million), RMB628 million (31 December 2017: Nil) and HKD3,850 million (31 December 2017: HKD17,133 million), respectively. These short-term bank borrowings were carried at LIBOR/HIBOR + 0.50% ~ 0.55% or a fixed interest rate of 5.22% ~ 5.44% (31 December 2017: LIBOR/HIBOR + 0.50% ~ 0.55%) per annum.

During the year ended 31 December 2018, 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 2018 have been detailed in Note 26.

As at 31 December 2018, the carrying amounts of borrowings approximated their fair values.

35 NOTES PAYABLE

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	**48,501**	26,697
Non-current portion of long-term HKD notes payable	**2,797**	2,666
	51,298	29,363
Included in current liabilities:		
Current portion of long-term USD notes payable	**13,720**	3,919
Current portion of long-term HKD notes payable	**–**	833
	13,720	4,752
	65,018	34,115

The aggregate principal amounts of USD notes payable and HKD notes payable were USD9,100 million (31 December 2017: USD4,700 million) and HKD3,200 million (31 December 2017: HKD4,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% (31 December 2017: 2.30% ~ 4.70%) per annum.

The notes payable were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Within 1 year	**13,720**	4,752
Between 1 and 2 years	**10,335**	13,044
Between 2 and 5 years	**10,258**	9,833
More than 5 years	**30,705**	6,486
	65,018	34,115

35 NOTES PAYABLE (Cont'd)

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

On 19 January 2018, the Company issued four tranches of senior notes under the Global Medium Term Note Programme with aggregate principal amounts of USD5 billion as set out below:

	Amount (USD'Million)	Interest Rate (per annum)	Due
2023 Notes	1,000	2.985%	2023
2023 Floating Rate Notes	500	3-month USD LIBOR + 0.605%	2023
2028 Notes	2,500	3.595%	2028
2038 Notes	1,000	3.925%	2038
	5,000		

In March 2018, the notes payable with an aggregate principal amount of USD600 million issued in September 2012 reached their maturity and were repaid in full by the Group.

In September 2018, the notes payable with an aggregate principal amount of HKD1,000 million issued in September 2015 reached their maturity and were repaid in full by the Group.

As at 31 December 2018, the fair value of the notes payable amounted to RMB62,820 million (31 December 2017: RMB34,691 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.

36 LONG-TERM PAYABLES

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Purchase consideration payables for investee companies	**2,018**	336
Payables relating to media contents and running royalty fee for online games	**1,415**	2,597
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**393**	225
Others	**971**	704
	4,797	3,862

37 OTHER FINANCIAL LIABILITIES

As at 31 December 2018, it mainly comprised of the contingent consideration in relation to the acquisition of equity interests from shareholders of an associate of the Group (Note 40).

38 ACCOUNTS PAYABLE

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

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
0 ~ 30 days	**56,506**	38,420
31 ~ 60 days	**6,264**	3,030
61 ~ 90 days	**1,557**	2,050
Over 90 days	**9,408**	6,585
	73,735	50,085

39 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**15,929**	13,451
Selling and marketing expense accruals	**3,038**	4,414
General and administrative expenses accruals	**1,650**	1,149
Purchase consideration payables for investee companies	**1,277**	1,045
Purchase of construction related costs	**1,065**	1,463
Interests payable	**951**	410
Prepayments received from customers and others	**542**	416
Liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**759**	–
Others (Note)	**8,101**	7,085
	33,312	29,433

Note:

Others primary consist of deposits from third parties, reserve for platform services, sundry payables and other accruals.

40 BUSINESS COMBINATION

(a) Step-up acquisition of New Classics Media

On 31 October 2018 (the "Acquisition Date"), the Group's non-wholly owned subsidiary, China Literature Limited ("China Literature"), acquired entire equity interests in New Classic Media Holdings Limited ("New Classics Media"), an existing associate of the Group, which is engaged in the production and distribution of television series, web series and films in the PRC (the "Step-up Acquisition"). The investment in New Classics Media was initially accounted for as FVPL, and subsequently reclassified as an associate of the Group due to additional investments and board representation. Immediately before the Step-up Acquisition, the Group held 44.08% equity interests in New Classics Media (the "Previously Held Interests"). Upon completion of the Step-up Acquisition, the Group indirectly held approximately 56% equity interests in New Classics Media through China Literature and accounted for it as a subsidiary of the Group. The Group expects the acquisition of New Classics Media to further increase its market share in entertainment industry.

Goodwill of approximately RMB6,933 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 New Classics Media at fair value on Acquisition Date.

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.

40 BUSINESS COMBINATION (Cont'd)

(a) Step-up acquisition of New Classics Media (Cont'd)

	As at 31 October 2018 RMB'Million
Total consideration:	
Cash paid	1,532
Ordinary shares issued by China Literature	1,431
Contingent consideration (Note)	3,301
Fair value of the Previously Held Interests (Note 20(a) (ii))	2,945
	9,209
Non-controlling interests	(4,070)
Total consideration attributable to the Company's equity holders	5,139
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	1,006
Accounts receivable	1,527
Intangible assets arising from acquisition	741
Intangible assets and prepayments (mainly include television series and film rights)	2,449
Other assets	608
Deferred revenue and other payables and accruals	(2,173)
Borrowings	(1,363)
Other liabilities	(290)
Deferred income tax liabilities	(231)
Total identifiable net assets	2,274
Non-controlling interests	(4,068)
Goodwill	6,933
	5,139

40 BUSINESS COMBINATION (Cont'd)

(a) Step-up acquisition of New Classics Media (Cont'd)

Note:

Pursuant to the share purchase agreement, the consideration will be settled by a combination of cash and new shares paid and issued by China Literature and will be subject to the earn-out mechanism set forth in the share purchase agreement. "Monte Carlo Simulation Method" was used in this exercise to measure the value of the contingent consideration. The future net profit of New Classics Media was simulated in numerous scenarios based on the assumptions of growth rate and volatility of net profit of New Classics Media. For each scenario, the consideration to be paid in the form of cash and shares would be determined in accordance with the earn-out mechanism set out in the share purchase agreement. Such consideration was then discounted at a rate that reflects the associated risk of the payment to arrive the present value of consideration in a scenario. The value of contingent consideration was obtained by the average of the present value of considerations in these scenarios. As at 31 October 2018, other financial liabilities of approximately RMB3,301 million in relation to this arrangement was recognised in the Group's consolidated statement of financial position based on the earn-out mechanism.

The revenue and the results contributed by New Classics Media to the Group for the period since the Acquisition Date were insignificant. The Group's revenue and results for the year would not be materially different should the Step-up Acquisition have otherwise occured on 1 January 2018.

The financial impacts recorded as "Other gains, net" during the year ended 31 December 2018 for the difference between the fair value of the Previously Held Interests and the existing carrying amount of investment in an associate at the Acquisition Date were insignificant.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

(b) Other business combination

During the year ended 31 December 2018, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions was approximately RMB3,077 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB1,426 million, RMB1,003 million and RMB2,654 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 2018.

The related transaction costs of these business combinations were not material to the Group's consolidated financial statements.

41 CONSOLIDATED CASH FLOW STATEMENT

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

	2018	2017
	RMB'Million	RMB'Million
Profit for the year	**79,984**	72,471
Adjustments for:		
Income tax expense	**14,482**	15,744
Net gains on disposals and deemed disposals of investee companies	**(2,932)**	(13,518)
Dividend income	**(686)**	(1,713)
Depreciation of property, plant and equipment and investment properties	**8,423**	4,880
Amortisation of intangible assets and land use rights	**25,825**	18,731
Net losses on disposals of intangible assets and property, plant and equipment	**47**	24
Interest income	**(4,569)**	(3,940)
Equity-settled share-based compensation expenses	**7,869**	6,137
Other expenses in relation to equity transactions of an investee company	**1,519**	–
Share of profit of associates and joint ventures	**(1,487)**	(821)
Impairment provision for investments in associates, joint ventures (2017: investments in associates, joint ventures, AFS and RCPS)	**16,397**	2,555
Net fair value gains on FVPL and other financial instruments	**(29,757)**	(4,298)
Impairment of intangible assets	**1,181**	239
Exchange gains	**(228)**	(152)
Changes in working capital:		
Accounts receivable	**(10,302)**	(6,400)
Inventories	**(29)**	(39)
Prepayments, deposits and other receivables	**(4,050)**	(3,760)
Accounts payable	**22,955**	16,134
Other payables and accruals	**(3,154)**	8,422
Other tax liabilities	**(19)**	189
Deferred revenue	**(505)**	9,117
Cash generated from operating activities	**120,964**	120,002

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 32(e) and 40(a), there were no material non-cash transactions during the year ended 31 December 2018.

(c) Net (debt)/cash 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)/cash	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Cash and cash equivalents	**97,814**	105,697
Term deposits and others	**69,305**	42,540
Borrowings – repayable within one year	**(26,834)**	(15,696)
Borrowings – repayable after one year	**(87,437)**	(82,094)
Notes payable – repayable within one year	**(13,720)**	(4,752)
Notes payable – repayable after one year	**(51,298)**	(29,363)
Net (debt)/cash	**(12,170)**	16,332
Cash and cash equivalents, term deposits and others	**167,119**	148,237
Gross debt – fixed interest rates	**(74,910)**	(39,257)
Gross debt – floating interest rates	**(104,379)**	(92,648)
Net (debt)/cash	**(12,170)**	16,332

41 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Net (debt)/cash reconciliation (Cont'd)

	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 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	**97,814**	**69,305**	**(26,834)**	**(87,437)**	**(13,720)**	**(51,298)**	**(12,170)**
Net cash as at 1 January 2017	71,902	55,735	(12,278)	(57,549)	(3,466)	(36,204)	18,140
Cash flows	36,346	(13,179)	(3,698)	(28,764)	3,450	–	(5,845)
Exchange impacts	(2,551)	(16)	768	3,731	231	1,921	4,084
Other non-cash movements	–	–	(488)	488	(4,967)	4,920	(47)
Net cash as at 31 December 2017	105,697	42,540	(15,696)	(82,094)	(4,752)	(29,363)	16,332

42 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2018 and 2017 are analysed as follows:

	As at 31 December	
	2018 RMB'Million	2017 RMB'Million
Contracted:		
Construction/purchase of buildings and purchase of land use rights	**2,219**	273
Purchase of other property, plant and equipment	**357**	153
Capital investment in investees	**8,763**	3,027
	11,339	3,453

42 COMMITMENTS

(b) Operating lease commitments

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

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**2,632**	1,027
Later than one year and not later than five years	**7,398**	1,056
Later than five years	**2,264**	970
	12,294	3,053

(c) 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	
	2018	2017
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**7,260**	5,279
Later than one year and not later than five years	**8,332**	9,822
Later than five years	**2,279**	2,236
	17,871	17,337

43 RELATED PARTIES 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 20 (Transactions with associates), Note 25 (Loans to investees and investees' shareholders) and Note 33 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2018 and 2017, and no other material balances with related parties as at 31 December 2018 and 2017.

44 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2018 to the approval date of these financial statements by the Board of Directors on 21 March 2019.

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**42**	41
Investments in subsidiaries	**60,770**	55,253
Contribution to Share Scheme Trust	**95**	43
	60,907	55,337
Current assets		
Amounts due from subsidiaries	**52,078**	8,725
Prepayments, deposits and other receivables	**6**	17
Cash and cash equivalents	**63**	7,919
	52,147	16,661
Total assets	**113,054**	71,998

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

(a) Financial position of the Company (Cont'd)

	As at 31 December	
	2018	2017
	RMB'Million	RMB'Million
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	**–**	–
Share premium	**27,294**	22,204
Shares held for share award schemes	**(4,173)**	(3,970)
Other reserves (b)	**(179)**	(531)
Retained earnings (b)	**5,443**	8,371
Total equity	**28,385**	26,074
LIABILITIES		
Non-current liabilities		
Notes payable	**51,298**	29,363
Other financial liabilities	**1,164**	2,068
	52,462	31,431
Current liabilities		
Amounts due to subsidiaries	**17,454**	9,408
Other payables and accruals	**1,033**	333
Notes payable	**13,720**	4,752
	32,207	14,493
Total liabilities	**84,669**	45,924
Total equity and liabilities	**113,054**	71,998

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
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)**
At 1 January 2017	4,031	126
Profit for the year	9,392	–
Dividends paid relating to 2016	(5,052)	–
Currency translation differences	–	(657)
At 31 December 2017	8,371	(531)

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2018:

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 BVI, 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

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

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
China Literature	Established in the Cayman Islands, limited liability company	USD102,255	55.59%*	Provision of online literature services in the PRC
TME (Note (b))	Established in the Cayman Islands, limited liability company	USD269,025	50.08%*	Provision of online music entertainment services in the PRC

* on an outstanding basis

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Note:

(a) 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.

(b) 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.

(c) 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 do not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.

(d) Significant restrictions

As at 31 December 2018, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB86,468 million 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 33(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 33(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 2018, the Company contributed approximately RMB2,187 million (2017: RMB2,232 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 AGM"	the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof
"2B"	Product/Service provided to business customers
"Account I"	the bank account opened in the name of the Company to be operated solely for the purposes of operating the 2007 Share Award Scheme and the funds thereof to be held on trust by the Company for the Selected Participants
"Account II"	the bank account opened in the name of the trust pursuant to Trust Deed II, managed by the Trustee, and operated solely for the purposes of operating the 2013 Share Award Scheme, which is held on trust for the benefit of Selected Participants and can be funded by the Company or any of its subsidiaries
"Adoption Date I"	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
"Adoption Date II"	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
"AFS"	available-for-sale financial assets
"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

Definition

Term	Definition
"Beijing BIZCOM"	Beijing BIZCOM Technology Company Limited
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited
"Board"	the board of directors of the Company
"BOC"	Bank of China Limited
"CCB"	China Construction Bank Corporation
"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
"CMB"	China Merchants Bank Co., Ltd.
"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

Term	Definition
"Epic Games"	Epic Games, Inc., a Maryland corporation organized under the general laws of the State of Maryland, US
"EPS"	earnings per share
"ESG Reporting Guide"	the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules
"FinTech"	financial technology
"GAAP"	Generally Accepted Accounting Principles
"Grant Date"	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
"Group"	the Company and its subsidiaries
"Guangzhou 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
"HKD"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region, the PRC
"IA"	internal audit department of the Company
"IaaS"	Infrastructure-as-a-Service
"IAS"	International Accounting Standards
"IC"	internal control department of the Company
"IFRS"	International Financial Reporting Standards

Definition

Term	Definition
"IM"	Instant messaging
"Investment Committee"	the investment committee of the Company
"IP"	intellectual property
"IPO"	initial public offering
"KPL"	King Pro League
"LBS"	Location Based Service
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"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
"MOBA"	Multiplayer Online Battle Arena
"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
"Nomination Committee"	the nomination committee of the Company

Term	Definition
“O2O”	online-to-offline, or offline-to-online
“PaaS”	Platform-as-a-Service
“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
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“QR Codes”	Quick Response Codes
“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
“Remuneration Committee”	the remuneration committee of the Company
“Riot Games”	Riot Games, Inc., a Company established in US
“RMB”	the lawful currency of the PRC
“ROI”	return on investment
“Sea”	Sea Limited, a company headquartered in Singapore and listed on the New York Stock Exchange

Definition

Term	Definition
"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 and the 2013 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
"Singapore"	the Republic of Singapore
"SKT CFC"	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
"SKT Co-operation Committee"	the co-operation committee established under the SKT CFC
"SME"	small and medium enterprise
"Sogou"	Sogou Inc., a company incorporated in the Cayman Islands and listed on the New York Stock Exchange
"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

Term	Definition
"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 II"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"United States" or "US"	the United States of America
"USD"	the lawful currency of the United States
"VAS"	value-added services
"Yixin"	Yixin Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Wang Dian"	Nanjing Wang Dian Technology Company Limited

Definition

Term	Definition
"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

Tencent 腾讯

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