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Tencent 腾讯
TENCENT HOLDINGS LIMITED
騰訊控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 700)

**ANNOUNCEMENT OF THE ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2016. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited				
	31 December 2016	31 December 2015	Three months ended Year- on-year change	30 September 2016	Quarter- on-quarter change
	(RMB in millions, unless specified)				
Revenues	43,864	30,441	44%	40,388	9%
Gross profit	23,626	17,780	33%	21,828	8%
Operating profit	13,930	10,888	28%	14,460	-4%
Profit for the period	10,523	7,198	46%	10,776	-2%
Profit attributable to equity holders of the Company	10,529	7,164	47%	10,646	-1%
Non-GAAP profit attributable to equity holders of the Company	12,332	8,953	38%	11,737	5%
EPS (RMB per share)					
- basic	1.121	0.769	46%	1.134	-1%
- diluted	1.108	0.759	46%	1.121	-1%
Non-GAAP EPS (RMB per share)					
- basic	1.313	0.961	37%	1.251	5%
- diluted	1.298	0.949	37%	1.236	5%

	Year ended 31 December		
	2016	2015	Year-on-year change
	(RMB in millions, unless specified)		
Revenues	151,938	102,863	48%
Gross profit	84,499	61,232	38%
Operating profit	56,117	40,627	38%
Profit for the year	41,447	29,108	42%
Profit attributable to equity holders of the Company	41,095	28,806	43%
Non-GAAP profit attributable to equity holders of the Company	45,420	32,410	40%
EPS (RMB per share)			
- basic	4.383	3.097	42%
- diluted	4.329	3.055	42%
Non-GAAP EPS (RMB per share)			
- basic	4.844	3.485	39%
- diluted	4.784	3.437	39%

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.61 per share (2015: HKD0.47 per share) for the year ended 31 December 2016, subject to the approval of the shareholders at the 2017 AGM. Such proposed dividend will be payable on 2 June 2017 to the shareholders whose names appear on the register of members of the Company on 24 May 2017.

BUSINESS REVIEW AND OUTLOOK

1. Company Strategic Highlights

In 2016, we strengthened our “Connection” strategy by making our social platforms more interactive for users to share and communicate, and by connecting our social platforms to a broader range of online and offline services. We increasingly sought to differentiate user experience between our QQ and Weixin platforms.

- QQ increasingly catered to a younger user base by enriching and optimising its entertainment-oriented functionalities. From a social perspective, QQ introduced a series of features to make chatting and sharing experience more entertaining, such as facial beautifying tools, painting-styled photos, and animated video stickers. From a content perspective, QQ stimulated user activities with entertainment-oriented content such as literature, cartoons, and short videos.
- Weixin focused on providing more convenience to users’ daily life. During the year, Weixin enriched its content ecosystem around official accounts and boosted merchant and user adoption for Weixin Pay. In January 2017, Weixin launched *Mini Program* that we believe over time should help us broaden and deepen our service offering in low-frequency use cases, connect more offline services to online users, and provide more venues for users to sample functionalities offered by apps and thus increase the conversion rate for app downloads.

We also sought to deepen “Connection” between our users and our core business engines:

- *Online games*: Our online games business delivered another year of solid growth. Through data mining, we improved performance of our existing titles and gained deeper insights into player behaviours. In China, several of our self-created games such as Honour of Kings, Legend of YuLong Mobile and Naruto Mobile achieved significant success, and we reinforced our position as the preferred China publisher for local and overseas game developers. Internationally, we expanded our presence via investments in companies such as Supercell and Paradox; we also published a few of our internally developed smart phone games in Southeast Asia.

Smart phone games: Our strategy is to engage a large pool of casual gamers and gradually advance them to mid-core and hard-core categories. During the year, we strengthened our leading position in player-versus-player games and expanded our presence in role playing games with a series of successful in-house and licensed titles.

PC client games: We strived to serve hard-core gamers better via attractive new content for existing titles and via user behavioural insights gained from data mining. As a result, our paying user ratio increased year over year. We broadened user engagement with our major PC game titles via eSports, game video streaming, and game interest groups. Our integrated PC game community, Tencent Game Platform, plays an important role in introducing new titles to gamers.

- *Advertising:* For key accounts, we increased our penetration by offering integrated solutions across brand and performance advertising products. For long-tail accounts, we successfully grew the number of small and regional marketers by sharpening our targeting algorithms, and upgrading our self-service tools for campaign management and results measuring.

Social and performance advertising: Our social advertising inventory remained as a key attraction to advertisers, leveraging our platform's superior targeting capability, unparalleled consumer reach, and premium brand image. We innovated around advertisement formats to enable more native and immersive experience for users, hence enhancing performance for marketers. We enabled advertisers and Weixin Official Accounts to select each other, better matching relevant advertisements with appropriate content. By improving click-through and sell-through rates of our existing inventory, we achieved satisfactory revenue growth without dramatically increasing advertisement loading rates.

Brand advertising: For video, we prioritised sponsorship advertising to better capitalise on our premium inventory. For our news applications, we further upgraded our targeting capabilities.

- *Digital content:* Our social platforms played an important role in propelling user growth of our digital content platforms, accelerating their growth into successful standalone businesses. Paying users grew significantly during the year benefiting from enhanced content, easier payment solutions, and the improved copyright protection environment in China. For video, we expanded our subscriber base via further investments in premium content, in particular exclusive content where we are deeply involved in production.

For music, we drove subscription growth with premium content, achieved initial success in digital albums sales, and boosted virtual gifting consumption on our karaoke platform. For literature, we boosted user acquisition through reading channels on our portfolio applications such as QQ Browser and Mobile QQ, strengthened our anti-piracy efforts, and sought to enhance IP value via original productions of movies and TV series.

- *Payment related services:* We surpassed 600 million mobile payment MAU and average daily payment transactions in December 2016. Our payment related services provide fast and seamless experience for a widening range of offline consumption scenarios such as taxi booking, convenience stores, restaurants, and supermarkets. We drove merchant adoption by working with merchant acquirer agencies and simplifying on-boarding procedures. Our fast growing commercial payment transaction volume is diversifying from large online merchants to a broad range of offline merchants. Our robust payment infrastructure, which made continuous improvements in payment security, service reliability and transaction speed, enabled us to process peak volume of 760,000 red packets per second during the Lunar New Year.
- *Cloud services:* Through continued investments in cloud services, we made several internally developed technologies available to our corporate clients and partners. We established clear leadership in providing game and video industry solutions, and strengthened our position in providing O2O and financial services solutions. During the year, we made continued investments in technology and infrastructure, grew our sales force and channel partners to drive adoption by more small-scale application developers, and strengthened our overseas capability to help Chinese enterprises to deploy their service globally. Our cloud services revenue more than tripled year-on-year in 2016 as both the number of enterprise accounts and usage of existing accounts increased substantially.

In addition, we are investing in forefront technologies such as artificial intelligence and machine learning to position our “Connection” strategy for the future. We intend to use machine learning to personalise recommendations within our digital content services, sharpen our advertising targeting capability, enrich social interactions via features such as animated face masks, and save costs by optimising our customer service needs.

2. Company Product Highlights

Operating Information

	As at 31 December 2016	As at 31 December 2015	Year- on-year change	As at 30 September 2016	Quarter- on-quarter change
MAU of QQ	868.5	853.1	1.8%	876.7	-0.9%
Smart device MAU of QQ	652.5	641.5	1.7%	647.2	0.8%
PCU of QQ (for the quarter)	243.7	241.1	1.1%	250.0	-2.5%
Combined MAU of Weixin and WeChat	889.3	697.0	27.6%	846.1	5.1%
MAU of Qzone	638.0	640.1	-0.3%	631.9	1.0%
Smart device MAU of Qzone	595.2	572.9	3.9%	583.6	2.0%
Fee-based VAS registered subscriptions	110.2	94.6	16.5%	105.0	5.0%

Social and Communication Platforms

- *QQ*: Smart device MAU increased by 1.7% year-on-year to 652.5 million. PCU including PC and mobile reached 243.7 million. User activities benefited from our new features such as cmShow, photo beautifying, and animated stickers for video. By building AR technology into interactions, QQ attracted 250 million users to open 2 billion sponsored red packets during the 5-day Lunar New Year campaign.
- *Qzone*: Smart device MAU increased by 3.9% year-on-year to 595.2 million. User activities benefited from upgraded functionalities such as immersive video streaming, live broadcasting, and upgraded photo features that allow family members to maintain joint albums.
- *Weixin* and *WeChat*: MAU reached 889.3 million, representing year-on-year growth of 27.6%. During the 24 hours of Lunar New Year's Eve, 14 billion red packets were gifted and accepted on Weixin, up 76% from the same period last year.

Online Game Platforms

- *PC client games:* We maintained our leadership as the largest game operator and publishing platform in China, operating all three top PC client games in China, namely League of Legends, Dungeon & Fighter and Cross Fire. In particular, League of Legends ranked first globally among all PC client games in terms of revenue in 2016, according to SuperData. Smart phone games had some negative effect on hours spent on playing PC games, especially where we operate both a PC and smart phone game utilising the same IP — for example, our shooting game Cross Fire. However the combined usage of these IPs across PC and smart phone has generally increased substantially.
- *Smart phone games:* We remained the top smart phone game publisher in China. For iOS, we ranked the number 1 publisher in the Global Grossing Chart, according to AppAnnie. Our games generally generate more revenue on Android than on iOS, because there are more Android users in China, and some of our games appeal more to young users who use Android phones more. We achieved approximately RMB10.7 billion revenue¹ in the fourth quarter of 2016, representing 51% year-on-year revenue growth, benefiting from portfolio expansion and strong operating performance of our major player-versus-player games and role-playing games. As of the end of 2016, Honour of Kings surpassed 50 million DAU, setting a new record for smart phone games on our platforms. During 2016, we continued to gain ground in role playing games with the success of titles such as Fantasy Zhu Xian Mobile, JX Mobile, ZhengTu Mobile, and Legend of YuLong Mobile.

Media and Digital Content Platforms

- *News Services:* Our news services, including news applications and news plug-ins within our social platforms, maintained industry leadership in terms of DAU. Tencent News, the most popular professional news application in China, focuses on formal and deep news content. By providing attractive and highly personalised casual reading content based on readers' interest graph, Kuaibao established itself as one of the most popular news applications in China.
- *Online Video:* Our video service ranked first in China in terms of mobile video views. The number of paying users exceeded 20 million, more than tripled year-on-year. During the year, we gained initial success in original content with popular titles such as Candle in the Tomb and When a Snail Falls in Love.

¹ Including smart phone games revenue attributable to our social networks business.

- *Digital music*: We expanded our industry-leading music library and strengthened anti-piracy measures. DAU of our online karaoke application WeSing reached 35 million in 2016, more than doubled year-on-year, establishing itself as the largest online karaoke community in China. Virtual gifting items have gained popularity on WeSing as a tool for the audience to interact with the singers.
- *Online literature*: We strengthened our contractual relationships with key authors, and helped long-tail authors to achieve better readership via more intelligent content recommendations to readers. The number of daily paying readers reached approximately 2.5 million, more than doubled year-on-year, benefiting from reduced piracy.

Utility Platforms

- *Security*: Our mobile security application expanded its industry leadership, ranking first in China in terms of MAU according to QuestMobile. We won two world-class security vulnerability discovery contests in 2016, ranking number 1 in both Pwn2Own and Mobile Pwn2Own. During 2016, we strengthened our mobile security leadership in areas such as virus scanning, phony base-station detection, anti-fraudulent phone number library, phone memory optimisation, and speed boosting.
- *Application Store*: Our application store YingYongBao gained notable market share, overtaking the first movers to become the clear market leader. YingYongBao was ranked first among all Android application stores in China by QuestMobile in terms of MAU. In addition to application discovery, we also drove user activities with entertainment oriented content such as videos, cartoons and literature. During the year, YingYongBao has grown into a significant distribution platform for our smart phone games on Android and made meaningful contributions to the growth of our social and performance advertising.
- *Browser*: Our mobile browser strengthened its industry leadership, ranking first in China in terms of MAU according to QuestMobile. Personalised recommendations drove robust year-on-year growth in page views and video views. QQ Browser also made significant contributions to the user growth of our digital literature services.

3. Company Financial Performance

In fiscal year 2016

We achieved 48% year-on-year revenue growth. Revenue growth was broad based but particularly driven by smart phone games, social and performance advertising, digital content sales, and emerging businesses such as payment related services.

Operating profit grew 38% year-on-year. Operating margin was 37%, down 2 percentage points from the previous year due to a mix change in our revenue streams.

Profit attributable to equity holders of the Company increased by 43% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 40%. Free cash flow grew 50%. In celebration of the 18th anniversary of the Company, to recognise the contributions made by our employees, we granted 300 shares to each employee in November 2016.

4. Company Outlook and Strategies for 2017

During 2017, we intend to further our “Connection” strategy by expanding our ecosystem around our core social and communication platforms via initiatives including:

- Adding more services within our social platforms to bring more convenience to our users, and to create business opportunities for our ecosystem partners;
- Expanding the popularity of our major smart phone games while adding new genre-driven PC games;
- Expanding our advertising market share by synchronising our capabilities in brand and performance advertising, and growing our number of small and regional advertisers with deeper targeting algorithms and more convenient self-service tools;
- Growing our digital content subscriber bases;
- Boosting usage frequency of our payment related services by covering more online and offline consumption scenarios; and
- Developing our capabilities in emerging technology areas such as machine learning and cloud services.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The following table sets forth the comparative figures for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	2015
	(RMB in millions)	
Revenues	151,938	102,863
Cost of revenues	<u>(67,439)</u>	<u>(41,631)</u>
Gross profit	84,499	61,232
Interest income	2,619	2,327
Other gains, net	3,594	1,886
Selling and marketing expenses	(12,136)	(7,993)
General and administrative expenses	<u>(22,459)</u>	<u>(16,825)</u>
Operating profit	56,117	40,627
Finance costs, net	(1,955)	(1,618)
Share of losses of associates and joint ventures	<u>(2,522)</u>	<u>(2,793)</u>
Profit before income tax	51,640	36,216
Income tax expense	<u>(10,193)</u>	<u>(7,108)</u>
Profit for the year	<u>41,447</u>	<u>29,108</u>
Attributable to:		
Equity holders of the Company	41,095	28,806
Non-controlling interests	<u>352</u>	<u>302</u>
	<u>41,447</u>	<u>29,108</u>
Non-GAAP profit attributable to equity holders of the Company	<u>45,420</u>	<u>32,410</u>

Revenues. Revenues increased by 48% to RMB151.9 billion for the year ended 31 December 2016 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2016 and 2015:

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

- Revenues from our VAS business increased by 34% to RMB107.8 billion for the year ended 31 December 2016 on a year-on-year basis. Online games revenues increased by 25% to RMB70,844 million. The increase was mainly driven by revenue growth from our major smart phone games such as Honour of Kings, Cross Fire Mobile and JX Mobile. The increase was also driven by higher revenues from certain major PC client games. Social networks revenues increased by 54% to RMB36,966 million. The increase primarily reflected growth in revenues from digital content services, as well as higher revenues from virtual item sales.
- Revenues from our online advertising business increased by 54% to RMB26,970 million for the year ended 31 December 2016 on a year-on-year basis. Performance-based advertising revenues grew by 81% to RMB15,765 million, mainly reflecting growth in advertising revenues derived from Weixin Moments, our mobile news apps, and Weixin Official Accounts. Brand display advertising revenues grew by 28% to RMB11,205 million, primarily due to higher revenues from our mobile media platforms such as Tencent News and Tencent Video.
- Revenues from our other businesses increased by 263% to RMB17,158 million for the year ended 31 December 2016 on a year-on-year basis. The increase was mainly driven by growth in revenues from our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 62% to RMB67,439 million for the year ended 31 December 2016 on a year-on-year basis. The increase mainly reflected greater sharing and content costs, costs of payment related services, and channel costs. As a percentage of revenues, cost of revenues increased to 44% for the year ended 31 December 2016 from 40% for the year ended 31 December 2015, primarily due to business mix changes. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2016 and 2015:

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

- Cost of revenues for our VAS business increased by 32% to RMB37,622 million for the year ended 31 December 2016 on a year-on-year basis. The increase primarily reflected greater sharing and content costs as well as channel costs as a result of higher revenues.
- Cost of revenues for our online advertising business increased by 72% to RMB15,396 million for the year ended 31 December 2016 on a year-on-year basis. The increase was mainly driven by greater investment in video content, to a lesser extent by higher traffic acquisition costs and staff costs.
- Cost of revenues for our other businesses increased by 238% to RMB14,421 million for the year ended 31 December 2016 on a year-on-year basis. The increase was primarily driven by greater costs in payment related and cloud services.

Other gains, net. We recorded net other gains, totalling RMB3,594 million for the year ended 31 December 2016, which primarily consisted of net disposal and deemed disposal gains arising from certain investee companies, and fair value gains on options we own in an investee company, partially offset by impairment provision charges for certain investee companies and donations made to the Tencent Charity Funds.

Selling and marketing expenses. Selling and marketing expenses increased by 52% to RMB12,136 million for the year ended 31 December 2016 on a year-on-year basis. The increase mainly reflected greater marketing spending on products and platforms such as online media, online games and payment related services, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses were 8% for the year ended 31 December 2016, broadly stable compared to the year ended 31 December 2015.

General and administrative expenses. General and administrative expenses increased by 33% to RMB22,459 million for the year ended 31 December 2016 on a year-on-year basis. The increase was mainly driven by greater research and development expenses as well as staff costs. As a percentage of revenues, general and administrative expenses decreased to 15% for the year ended 31 December 2016 from 16% for the year ended 31 December 2015.

Finance costs, net. Finance costs, net increased by 21% to RMB1,955 million for the year ended 31 December 2016 on a year-on-year basis. The increase was mainly driven by higher interest expenses as a result of greater amount of indebtedness.

Income tax expense. Income tax expense increased by 43% to RMB10,193 million for the year ended 31 December 2016 on a year-on-year basis. The increase was mainly driven by greater profit before income tax and withholding taxes.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 43% to RMB41,095 million for the year ended 31 December 2016 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 40% to RMB45,420 million for the year ended 31 December 2016.

Fourth Quarter of 2016 Compared to Fourth Quarter of 2015

The following table sets forth the comparative figures for the fourth quarter of 2016 and the fourth quarter of 2015:

	Unaudited	
	Three months ended	
	31 December	31 December
	2016	2015
	(RMB in millions)	
Revenues	43,864	30,441
Cost of revenues	<u>(20,238)</u>	<u>(12,661)</u>
Gross profit	23,626	17,780
Interest income	653	649
Other gains, net	1,022	249
Selling and marketing expenses	(4,462)	(3,024)
General and administrative expenses	<u>(6,909)</u>	<u>(4,766)</u>
Operating profit	13,930	10,888
Finance costs, net	(483)	(363)
Share of losses of associates and joint ventures	<u>(522)</u>	<u>(1,329)</u>
Profit before income tax	12,925	9,196
Income tax expense	<u>(2,402)</u>	<u>(1,998)</u>
Profit for the period	<u>10,523</u>	<u>7,198</u>
Attributable to:		
Equity holders of the Company	10,529	7,164
Non-controlling interests	<u>(6)</u>	<u>34</u>
	<u>10,523</u>	<u>7,198</u>
Non-GAAP profit attributable to equity holders of the Company	<u>12,332</u>	<u>8,953</u>

Revenues. Revenues increased by 44% to RMB43,864 million for the fourth quarter of 2016 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2016 and the fourth quarter of 2015:

	Unaudited			
	Three months ended			
	31 December 2016		31 December 2015	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	29,191	66%	23,068	76%
Online advertising	8,288	19%	5,733	19%
Others	<u>6,385</u>	<u>15%</u>	<u>1,640</u>	<u>5%</u>
Total revenues	<u>43,864</u>	<u>100%</u>	<u>30,441</u>	<u>100%</u>

- Revenues from our VAS business increased by 27% to RMB29,191 million for the fourth quarter of 2016 on a year-on-year basis. Online games revenues grew by 16% to RMB18,469 million. The increase was primarily driven by contributions from our major PvP and RPG genre smart phone games. Social networks revenues increased by 51% to RMB10,722 million. The increase mainly reflected revenue growth from digital content services, including our expanded digital music business, and virtual item sales.
- Revenues from our online advertising business increased by 45% to RMB8,288 million for the fourth quarter of 2016 on a year-on-year basis. Performance-based advertising revenues grew by 77% to RMB5,168 million, mainly driven by higher contributions from advertising revenues derived from Weixin Moments, our mobile news apps, and Weixin Official Accounts. Brand display advertising revenues increased by 11% to RMB3,120 million, primarily driven by growth in revenues from our mobile media platforms such as Tencent News and Tencent Video, partly offset by performance inventory replacing some brand inventory.
- Revenues from our other businesses increased by 289% to RMB6,385 million for the fourth quarter of 2016 on a year-on-year basis. The increase was mainly due to revenue growth from our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 60% to RMB20,238 million for the fourth quarter of 2016 on a year-on-year basis. The increase mainly reflected greater costs of payment related services, sharing and content costs, as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 46% for the fourth quarter of 2016 from 42% for the fourth quarter of 2015, primarily due to business mix changes. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2016 and the fourth quarter of 2015:

	Unaudited			
	Three months ended			
	31 December 2016		31 December 2015	
	% of		% of	
	segment		segment	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	10,734	37%	8,383	36%
Online advertising	4,424	53%	2,794	49%
Others	<u>5,080</u>	80%	<u>1,484</u>	90%
Total cost of revenues	<u>20,238</u>		<u>12,661</u>	

- Cost of revenues for our VAS business increased by 28% to RMB10,734 million for the fourth quarter of 2016 on a year-on-year basis. The increase was mainly due to greater sharing and content costs, as well as channel costs.
- Cost of revenues for our online advertising business increased by 58% to RMB4,424 million for the fourth quarter of 2016 on a year-on-year basis. The increase was primarily driven by greater investment in video content. Staff costs and traffic acquisition costs also increased.
- Cost of revenues for our other businesses increased by 242% to RMB5,080 million for the fourth quarter of 2016 on a year-on-year basis. The increase mainly reflected greater costs in payment related and cloud services.

Other gains, net. We recorded net other gains, totalling RMB1,022 million for the fourth quarter of 2016, which mainly consisted of net disposal and deemed disposal gains arising from certain investee companies, partly offset by impairment provision charges for certain investee companies and donations made to the Tencent Charity Funds.

Selling and marketing expenses. Selling and marketing expenses increased by 48% to RMB4,462 million for the fourth quarter of 2016 on a year-on-year basis. The increase was mainly driven by greater marketing and promotional expenses due to our expanded business scope. As a percentage of revenues, selling and marketing expenses were 10% for the fourth quarter of 2016, broadly stable compared to the fourth quarter of 2015.

General and administrative expenses. General and administrative expenses increased by 45% to RMB6,909 million for the fourth quarter of 2016 on a year-on-year basis. The increase primarily reflected greater research and development expenses, as well as staff costs, including those arising from higher share-based compensation expenses. As a percentage of revenues, general and administrative expenses were 16% for the fourth quarter of 2016, broadly stable compared to the fourth quarter of 2015.

Finance costs, net. Finance costs, net increased by 33% to RMB483 million for the fourth quarter of 2016 on a year-on-year basis, mainly due to greater amount of indebtedness.

Income tax expense. Income tax expense increased by 20% to RMB2,402 million for the fourth quarter of 2016 on a year-on-year basis. The increase primarily reflected greater profit before income tax and withholding tax, partly offset by the impact of income tax preferential treatment recognised by a subsidiary.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 47% to RMB10,529 million for the fourth quarter of 2016 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 38% to RMB12,332 million.

Fourth Quarter of 2016 Compared to Third Quarter of 2016

The following table sets forth the comparative figures for the fourth quarter of 2016 and the third quarter of 2016:

	Unaudited	
	Three months ended	
	31 December	30 September
	2016	2016
	(RMB in millions)	
Revenues	43,864	40,388
Cost of revenues	<u>(20,238)</u>	<u>(18,560)</u>
Gross profit	23,626	21,828
Interest income	653	637
Other gains, net	1,022	1,155
Selling and marketing expenses	(4,462)	(3,277)
General and administrative expenses	<u>(6,909)</u>	<u>(5,883)</u>
Operating profit	13,930	14,460
Finance costs, net	(483)	(604)
Share of losses of associates and joint ventures	<u>(522)</u>	<u>(619)</u>
Profit before income tax	12,925	13,237
Income tax expense	<u>(2,402)</u>	<u>(2,461)</u>
Profit for the period	<u>10,523</u>	<u>10,776</u>
Attributable to:		
Equity holders of the Company	10,529	10,646
Non-controlling interests	<u>(6)</u>	<u>130</u>
	<u>10,523</u>	<u>10,776</u>
Non-GAAP profit attributable to equity holders of the Company	<u>12,332</u>	<u>11,737</u>

Revenues. Revenues increased by 9% to RMB43,864 million for the fourth quarter of 2016 on a quarter-on-quarter basis.

- Revenues from our VAS business increased by 4% to RMB29,191 million for the fourth quarter of 2016. Online games revenues grew by 2% to RMB18,469 million. The increase primarily reflected higher revenues from our smart phone games, partly offset by weaker seasonality for PC online games in the fourth quarter, which we did not experience in the fourth quarter of 2015 due to new virtual item releases within one of our major PC game titles during the time. Social networks revenues increased by 9% to RMB10,722 million. The increase was mainly driven by higher contributions from digital content services, as well as from virtual item sales.
- Revenues from our online advertising business increased by 11% to RMB8,288 million for the fourth quarter of 2016. The increase was mainly driven by revenue growth from performance-based advertising which increased by 18% to RMB5,168 million, primarily due to higher advertising revenues from Weixin Moments, our app store and our mobile news apps. Brand display advertising revenues increased slightly by 1% to RMB3,120 million, impacted by a high base effect from Olympics-related advertising in the prior quarter.

Cost of revenues. Cost of revenues increased by 9% to RMB20,238 million for the fourth quarter of 2016 on a quarter-on-quarter basis. The increase was primarily driven by greater costs of payment related services, staff costs including share-based compensation expenses, as well as bandwidth and server custody fees. As a percentage of revenues, cost of revenues was 46% for the fourth quarter of 2016, broadly stable compared to the third quarter of 2016.

- Cost of revenues for our VAS business increased by 10% to RMB10,734 million for the fourth quarter of 2016. The increase mainly reflected greater sharing and content costs, as well as channel costs.
- Cost of revenues for our online advertising business decreased by 7% to RMB4,424 million for the fourth quarter of 2016. The decrease was mainly due to lower amortisation expenses from video content rights.

Selling and marketing expenses. Selling and marketing expenses increased by 36% to RMB4,462 million for the fourth quarter of 2016 on a quarter-on-quarter basis. The increase mainly reflected seasonal marketing and promotion activities for our online games and greater marketing spending on our payment related services.

General and administrative expenses. General and administrative expenses increased by 17% to RMB6,909 million for the fourth quarter of 2016 on a quarter-on-quarter basis. The increase was primarily driven by greater research and development expenses, as well as staff costs, including greater share-based compensation expenses.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 1% to RMB10,529 million for the fourth quarter of 2016 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 5% to RMB12,332 million.

Other Financial Information

	Unaudited			Year ended	
	31 December	30 September	31 December	31 December	
	2016	2016	2015	2016	2015
	(RMB in millions, unless specified)				
EBITDA (a)	16,775	15,865	12,040	62,550	43,049
Adjusted EBITDA (a)	18,495	16,963	12,831	66,863	45,805
Adjusted EBITDA margin (b)	42%	42%	42%	44%	45%
Interest expense	611	585	409	2,167	1,510
Net cash (c)	18,140	8,368	19,114	18,140	19,114
Capital expenditures (d)	2,839	3,651	1,883	12,100	7,709

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 cash represents period end balance and is calculated as cash and cash equivalents, term deposits, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, land use rights and intangible assets (excluding online game and other content licenses).

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

	Unaudited				
	31 December	Three months ended		Year ended	
	2016	30 September 2016	31 December 2015	2016	2015
	(RMB in millions, unless specified)				
Operating profit	13,930	14,460	10,888	56,117	40,627
Adjustments:					
Interest income	(653)	(637)	(649)	(2,619)	(2,327)
Other (gains)/losses, net	(1,022)	(1,155)	(249)	(3,594)	(1,886)
Depreciation of property, plant and equipment and investment properties	1,007	933	826	3,716	3,159
Amortisation of intangible assets	3,513	2,264	1,224	8,930	3,476
EBITDA	16,775	15,865	12,040	62,550	43,049
Equity-settled share-based compensation	1,720	1,098	791	4,313	2,756
Adjusted EBITDA	18,495	16,963	12,831	66,863	45,805

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS, have been presented in this announcement. 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 impact 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 quarters of 2016 and 2015, the third quarter of 2016, and the years ended 31 December 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 31 December 2016

	Adjustments							Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net			Impairment provision	
				(gains)/losses from investee companies	Amortisation of intangible assets			
(d)								
	(RMB in millions, unless specified)							
Operating profit	13,930	1,720	34	(1,502)	162	602	14,946	
Profit for the period	10,523	1,946	34	(1,440)	541	828	12,432	
Profit attributable to equity holders	10,529	1,906	34	(1,440)	493	810	12,332	
EPS (RMB per share)								
- basic	1.121						1.313	
- diluted	1.108						1.298	
Operating margin	32%						34%	
Net margin	24%						28%	

Unaudited three months ended 30 September 2016

	Adjustments							Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net			Impairment provision	
				(gains)/losses from investee companies	Amortisation of intangible assets			
(d)								
	(RMB in millions, unless specified)							
Operating profit	14,460	1,098	34	(2,404)	139	1,710	15,037	
Profit for the period	10,776	1,259	34	(2,309)	426	1,743	11,929	
Profit attributable to equity holders	10,646	1,224	33	(2,297)	389	1,742	11,737	
EPS (RMB per share)								
- basic	1.134						1.251	
- diluted	1.121						1.236	
Operating margin	36%						37%	
Net margin	27%						30%	

Unaudited three months ended 31 December 2015

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)						
Operating profit	10,888	791	18	(929)	46	719	11,533
Profit for the period	7,198	959	17	(995)	313	1,525	9,017
Profit attributable to equity holders	7,164	939	16	(995)	304	1,525	8,953
EPS (RMB per share)							
- basic	0.769						0.961
- diluted	0.759						0.949
Operating margin	36%						38%
Net margin	24%						30%

Year ended 31 December 2016

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)						
Operating profit	56,117	4,313	142	(7,624)	397	4,809	58,154
Profit for the year	41,447	5,085	142	(7,786)	1,651	5,452	45,991
Profit attributable to equity holders	41,095	4,982	141	(7,770)	1,547	5,425	45,420
EPS (RMB per share)							
- basic	4.383						4.844
- diluted	4.329						4.784
Operating margin	37%						38%
Net margin	27%						30%

Year ended 31 December 2015

	Adjustments						Non-GAAP
	As reported	Equity-settled share-based compensation	Cash-settled share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
			(a)	(b)	(c)	(d)	
	(RMB in millions, unless specified)						
Operating profit	40,627	2,756	85	(4,275)	198	2,373	41,764
Profit for the year	29,108	3,304	85	(4,016)	1,186	3,185	32,852
Profit attributable to equity holders	28,806	3,221	81	(4,016)	1,149	3,169	32,410
EPS (RMB per share)							
- basic	3.097						3.485
- diluted	3.055						3.437
Operating margin	39%						41%
Net margin	28%						32%

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 and businesses, and fair value changes on options we own in investee companies
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provision for associates, available-for-sale financial assets, and intangible assets arising from acquisitions

Liquidity and Financial Resources

Our net cash positions as at 31 December 2016 and 30 September 2016 are as follows:

	Audited 31 December 2016	Unaudited 30 September 2016
	(RMB in millions)	
Cash and cash equivalents	71,902	52,417
Term deposits	<u>55,735</u>	<u>47,919</u>
	127,637	100,336
Borrowings	(69,827)	(49,790)
Notes payable	<u>(39,670)</u>	<u>(42,178)</u>
Net cash	<u>18,140</u>	<u>8,368</u>

As at 31 December 2016, the Group had net cash of RMB18,140 million. The sequential increase in net cash was mainly due to free cash flow generation, recoupment of approximately USD1.2 billion as a result of Supercell financing agreements, partly offset by payments for M&A initiatives and licensed content. Fair value of our stakes in listed investee companies (both associates and available-for-sale financial assets) totalled RMB89 billion as at 31 December 2016.

As at 31 December 2016, RMB46.1 billion of our financial resources (cash and cash equivalents and term deposits) were denominated in non-RMB currencies.

For the fourth quarter of 2016, the Group had free cash flow of RMB17,156 million. This was a result of net cash flow generated from operating activities of RMB20,000 million, offset by payments for capital expenditure of RMB2,844 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended 31 December	
		2016	2015
	Note	RMB'Million	RMB'Million
Revenues			
Value-added services		107,810	80,669
Online advertising		26,970	17,468
Others		17,158	4,726
		<u>151,938</u>	<u>102,863</u>
Cost of revenues	4	<u>(67,439)</u>	<u>(41,631)</u>
Gross profit		84,499	61,232
Interest income		2,619	2,327
Other gains, net	3	3,594	1,886
Selling and marketing expenses	4	(12,136)	(7,993)
General and administrative expenses	4	(22,459)	(16,825)
Operating profit		56,117	40,627
Finance costs, net		(1,955)	(1,618)
Share of losses of associates and joint ventures		<u>(2,522)</u>	<u>(2,793)</u>
Profit before income tax		51,640	36,216
Income tax expense	5	<u>(10,193)</u>	<u>(7,108)</u>
Profit for the year		<u>41,447</u>	<u>29,108</u>
Attributable to:			
Equity holders of the Company		41,095	28,806
Non-controlling interests		<u>352</u>	<u>302</u>
		<u>41,447</u>	<u>29,108</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
- basic	6	<u>4.383</u>	<u>3.097</u>
- diluted	6	<u>4.329</u>	<u>3.055</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Year ended 31 December	
	2016	2015
	RMB'Million	RMB'Million
Profit for the year	<u>41,447</u>	<u>29,108</u>
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates	863	329
Net gains from changes in fair value of available-for-sale financial assets	2,929	12,586
Transfer to profit or loss upon disposal of available-for-sale financial assets	(1,176)	(11)
Currency translation differences	4,198	1,975
Other fair value gains	600	—
<i>Items that may not be subsequently reclassified to profit or loss</i>		
Other fair value (losses)/gains	<u>(244)</u>	<u>736</u>
	<u>7,170</u>	<u>15,615</u>
Total comprehensive income for the year	<u><u>48,617</u></u>	<u><u>44,723</u></u>
Attributable to:		
Equity holders of the Company	48,194	44,416
Non-controlling interests	<u>423</u>	<u>307</u>
	<u><u>48,617</u></u>	<u><u>44,723</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

		As at 31 December	
		2016	2015
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment		13,900	9,973
Construction in progress		4,674	4,248
Investment properties		854	292
Land use rights		5,174	2,293
Intangible assets		36,467	13,439
Investments in associates	8(a)	70,042	60,171
Investments in redeemable instruments of associates	8(b)	9,627	6,230
Investments in joint ventures		630	544
Available-for-sale financial assets	9	83,806	44,339
Prepayments, deposits and other assets		7,363	5,480
Other financial assets		1,760	—
Deferred income tax assets		7,033	757
Term deposits		<u>5,415</u>	<u>3,674</u>
		<u>246,745</u>	<u>151,440</u>
Current assets			
Inventories		263	222
Accounts receivable	10	10,152	7,061
Prepayments, deposits and other assets		14,118	11,397
Other financial assets		1,649	1,198
Term deposits		50,320	37,331
Restricted cash	11	750	54,731
Cash and cash equivalents		<u>71,902</u>	<u>43,438</u>
		<u>149,154</u>	<u>155,378</u>
Total assets		<u>395,899</u>	<u>306,818</u>

		As at 31 December	
		2016	2015
	Note	RMB'Million	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		17,324	12,167
Shares held for share award schemes		(3,136)	(1,817)
Other reserves		23,693	9,673
Retained earnings		<u>136,743</u>	<u>100,012</u>
		174,624	120,035
Non-controlling interests		<u>11,623</u>	<u>2,065</u>
Total equity		<u>186,247</u>	<u>122,100</u>
LIABILITIES			
Non-current liabilities			
Borrowings	14	57,549	12,922
Notes payable	15	36,204	37,092
Long-term payables		4,935	3,626
Other financial liabilities		2,576	—
Deferred income tax liabilities		5,153	3,668
Deferred revenue		<u>2,038</u>	<u>3,004</u>
		108,455	60,312
Current liabilities			
Accounts payable	13	27,413	15,700
Other payables and accruals	11	20,873	70,199
Borrowings	14	12,278	11,429
Notes payable	15	3,466	3,886
Current income tax liabilities		5,219	1,608
Other tax liabilities		745	462
Deferred revenue		<u>31,203</u>	<u>21,122</u>
		101,197	124,406
Total liabilities		<u>209,652</u>	<u>184,718</u>
Total equity and liabilities		<u>395,899</u>	<u>306,818</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company							
	Share capital	Shares held for share			Retained earnings	Total	Non- controlling interests	Total equity
		premium	award schemes	Other reserves				
RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million	
Balance at 1 January 2016	—	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100
Comprehensive income								
Profit for the year	—	—	—	—	41,095	41,095	352	41,447
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	—	—	—	863	—	863	—	863
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	2,929	—	2,929	—	2,929
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	(1,176)	—	(1,176)	—	(1,176)
- currency translation differences	—	—	—	4,127	—	4,127	71	4,198
- other fair value gains, net	—	—	—	356	—	356	—	356
Total comprehensive income for the year	—	—	—	7,099	41,095	48,194	423	48,617
Transactions with equity holders								
Capital injection	—	—	—	—	—	—	1,414	1,414
Employee share option schemes:								
- value of employee services	—	311	—	57	—	368	35	403
- proceeds from shares issued	—	225	—	—	—	225	—	225
Employee share award schemes:								
- value of employee services	—	3,453	—	394	—	3,847	68	3,915
- shares withheld for share award schemes	—	—	(1,936)	—	—	(1,936)	—	(1,936)
- vesting of awarded shares	—	(617)	617	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	897	—	897	—	897
Profit appropriations to statutory reserves	—	—	—	665	(665)	—	—	—
Dividends (Note 7)	—	—	—	—	(3,699)	(3,699)	(914)	(4,613)
Non-controlling interests arising from business combinations	—	—	—	—	—	—	7,802	7,802
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	1,785	—	(2,523)	—	(738)	(494)	(1,232)
Disposal of subsidiaries	—	—	—	—	—	—	(3)	(3)
Partial disposal of equity interests in subsidiaries and businesses	—	—	—	7,842	—	7,842	300	8,142
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(927)	—	(927)	927	—
Write-back of liabilities upon termination of the put option granted to non-controlling interests	—	—	—	516	—	516	—	516
Total transactions with equity holders at their capacity as equity holders for the year	—	5,157	(1,319)	6,921	(4,364)	6,395	9,135	15,530
Balance at 31 December 2016	—	17,324	(3,136)	23,693	136,743	174,624	11,623	186,247

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Shares held for share			Retained earnings RMB'Million	Total RMB'Million	Non- controlling interests RMB'Million	Total equity RMB'Million
		Share premium RMB'Million	award schemes RMB'Million	Other reserves RMB'Million				
Balance at 1 January 2015	—	5,131	(1,309)	2,129	74,062	80,013	2,111	82,124
Comprehensive income								
Profit for the year	—	—	—	—	28,806	28,806	302	29,108
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates	—	—	—	329	—	329	—	329
- net gains from changes in fair value of available-for-sale financial assets	—	—	—	12,586	—	12,586	—	12,586
- transfer to profit or loss upon disposal of available-for-sale financial assets	—	—	—	(11)	—	(11)	—	(11)
- currency translation differences	—	—	—	1,970	—	1,970	5	1,975
- other fair value gains, net	—	—	—	736	—	736	—	736
Total comprehensive income for the year	—	—	—	15,610	28,806	44,416	307	44,723
Transactions with equity holders								
Capital injection	—	—	—	—	—	—	108	108
Employee share option schemes:								
- value of employee services	—	165	—	190	—	355	21	376
- proceeds from shares issued	—	169	—	—	—	169	—	169
Employee share award schemes:								
- value of employee services	—	2,058	—	273	—	2,331	60	2,391
- shares withheld for share award schemes	—	—	(652)	—	—	(652)	—	(652)
- vesting of awarded shares	—	(144)	144	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	982	—	982	—	982
Profit appropriations to statutory reserves	—	—	—	216	(216)	—	—	—
Dividends	—	—	—	—	(2,640)	(2,640)	(549)	(3,189)
Non-controlling interests arising from business combinations	—	—	—	—	—	—	278	278
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	4,788	—	(8,160)	—	(3,372)	(599)	(3,971)
Disposal of subsidiaries	—	—	—	—	—	—	(44)	(44)
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(372)	—	(372)	372	—
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	—	—	—	(1,195)	—	(1,195)	—	(1,195)
Total transactions with equity holders at their capacity as equity holders for the year	—	7,036	(508)	(8,066)	(2,856)	(4,394)	(353)	(4,747)
Balance at 31 December 2015	—	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Year ended 31 December	
	2016	2015
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	65,518	45,431
Net cash flows used in investing activities	(70,923)	(63,605)
Net cash flows generated from financing activities	<u>31,443</u>	<u>18,528</u>
Net increase in cash and cash equivalents	26,038	354
Cash and cash equivalents at beginning of the year	43,438	42,713
Exchange gains on cash and cash equivalents	<u>2,426</u>	<u>371</u>
Cash and cash equivalents at end of the year	<u><u>71,902</u></u>	<u><u>43,438</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	39,804	19,845
Term deposits and highly liquid investments with initial terms within three months	<u>32,098</u>	<u>23,593</u>
	<u><u>71,902</u></u>	<u><u>43,438</u></u>

Note:

1 General information, basis of preparation and presentation

The Company was incorporated in the Cayman Islands with limited liability. The shares of the Company have been listed on the main board of the Stock Exchange since 16 June 2004.

The Company is an investment holding company. The Group is principally engaged in the provision of VAS and online advertising services to users in the PRC.

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRSs and have been consistently applied to all the year/period presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair values.

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016. The adoption of these amendments does not have any significant impact on the consolidated financial statements of the Group.

IFRS 11 (amendment)	Accounting for acquisitions of interests in joint operations
IAS 16 and IAS 38 (amendment)	Clarification of acceptable methods of depreciation and amortisation
IAS 1 (amendment)	Disclosure initiative
IFRSs (amendment)	Annual improvements 2014

A number of new standards and amendments to standards are not effective for the financial year beginning 1 January 2016, 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 for set out below:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 16	Lease

The Group is in the process of assessing the impact of the above new standards on the Group's results and financial position.

2 Segment information

The Group has following reportable segments for the years ended 31 December 2016 and 2015:

- VAS;
- Online advertising; and
- Others.

“Others” segment of the Group primarily comprises payment related services, cloud services and other services.

There were no material inter-segment sales during the years ended 31 December 2016 and 2015. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December 2016			
	VAS	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>107,810</u>	<u>26,970</u>	<u>17,158</u>	<u>151,938</u>
Gross profit	<u>70,188</u>	<u>11,574</u>	<u>2,737</u>	<u>84,499</u>
Depreciation	1,854	200	537	2,591
Amortisation	<u>2,982</u>	<u>5,295</u>	<u>—</u>	<u>8,277</u>

	Year ended 31 December 2015			
	VAS	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>80,669</u>	<u>17,468</u>	<u>4,726</u>	<u>102,863</u>
Gross profit	<u>52,247</u>	<u>8,527</u>	<u>458</u>	<u>61,232</u>
Depreciation	1,983	171	37	2,191
Amortisation	<u>631</u>	<u>2,437</u>	<u>—</u>	<u>3,068</u>

3 Other gains, net

	2016 RMB'Million	2015 RMB'Million
Gains on disposals and deemed disposals of investee companies	6,966	3,813
Impairment provision for investee companies and intangible assets from acquisition	(4,809)	(2,373)
Fair value gains on other financial instruments	658	462
Dividend income	563	272
Subsidies and tax rebates	380	331
Donation to Tencent Charity Funds	(570)	(470)
Others	406	(149)
	<u>3,594</u>	<u>1,886</u>

4 Expenses by nature

	2016 RMB'Million	2015 RMB'Million
Employee benefits expenses (a)	23,433	18,475
Content costs and agency fees (excluding amortisation of intangible assets)	22,328	17,094
Bandwidth and server custody fees	7,876	5,492
Channel costs	7,893	4,691
Promotion and advertising expenses	9,219	5,814
Operating lease rentals in respect of office buildings	1,117	896
Travelling and entertainment expenses	800	594
Amortisation of intangible assets (b)	8,930	3,476
Depreciation of property, plant and equipment	3,699	3,153

Note:

(a) The Group incurred expenses for the purpose of research and development during the year ended 31 December 2016 of approximately RMB11,845 million (2015: RMB9,039 million), which comprised employee benefits expenses of RMB9,290 million (2015: RMB7,134 million).

No significant development expenses had been capitalised for the years ended 31 December 2016 and 2015.

(b) Mainly included the amortisation charge of intangible assets in respect of game licenses and licensed online contents.

5 Income Tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2016 and 2015.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2016 and 2015.

(c) PRC corporate income tax

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances, and on the estimated assessable profits of entities within the Group established in the PRC for the years ended 31 December 2016 and 2015. The general PRC CIT rate is 25% in 2016.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended 31 December 2016 and 2015. Moreover, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, software enterprise that entitled to a national key software enterprise which will be subject to a preferential tax rate of 10%, shall at the time of final tax settlement each year, file with tax authorities for record in accordance with the relevant requirements. The filing record will be subject to verification by relevant government authorities. Accordingly, PRC CIT for the subsidiary has been provided for at a tax rate of 15% during the year and corresponding tax adjustments in relation to the change in applicable tax rate will be accounted for in the period upon the verification process is completed.

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

(d) Corporate income tax in other countries

Income tax on profits arising from other jurisdictions, including the United States, Europe, East Asia and South America has been calculated on the estimated assessable profits for the year at the rates prevailing in the relevant jurisdictions, ranging from 12.5 % to 36%.

(e) **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 profits derived after 1 January 2008 are generally subject to a 10% withholding tax. Under the double taxation arrangement between the 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.

Withholding taxes on dividends distribution at respective applicable tax rates are under certain jurisdictions that the Group's entities operate.

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

	2016	2015
	RMB'Million	RMB'Million
Current tax	10,791	6,936
Deferred income tax	<u>(598)</u>	<u>172</u>
	<u>10,193</u>	<u>7,108</u>

6 Earnings per share

(a) **Basic**

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

	2016	2015
Profit attributable to equity holders of the Company (RMB'Million)	<u>41,095</u>	<u>28,806</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,376</u>	<u>9,300</u>
Basic EPS (RMB per share)	<u>4.383</u>	<u>3.097</u>

(b) **Diluted**

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates, and the convertible bonds of the subsidiaries should also have potential dilutive effect on the EPS. During the years ended 31 December 2016 and 2015, these share options, restricted shares and convertible bonds had either anti-dilutive effect or insignificant dilutive effect to the Group.

	2016	2015
Profit attributable to equity holders of the Company (RMB'Million)	<u>41,095</u>	<u>28,806</u>
Weighted average number of ordinary shares in issue (million shares)	9,376	9,300
Adjustments for share options and awarded shares (million shares)	<u>118</u>	<u>130</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,494</u>	<u>9,430</u>
Diluted EPS (RMB per share)	<u>4.329</u>	<u>3.055</u>

7 Dividends

The dividends amounted to RMB3,699 million (2015: RMB2,640 million) was paid during the year ended 31 December 2016.

A final dividend in respect of the year ended 31 December 2016 of HKD0.61 per share (2015: HKD0.47 per share) was proposed pursuant to a resolution passed by the Board on 22 March 2017 and subject to the approval of the shareholders at the 2017 AGM. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

8 Interests in associates

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Investments in associates (a)		
- Listed entities	38,516	36,040
- Unlisted entities	<u>31,526</u>	<u>24,131</u>
	70,042	60,171
Investments in redeemable instruments of associates (b)	<u>9,627</u>	<u>6,230</u>
	<u>79,669</u>	<u>66,401</u>

Note:

(a) Investments in associates

	2016	2015
	RMB'Million	RMB'Million
At beginning of the year	60,171	51,131
Additions	9,900	12,705
Deemed disposal gains	2,091	1,931
Share of losses of associates	(2,549)	(2,802)
Share of other comprehensive income of associates	863	329
Dividends from associates	(151)	(237)
Disposals and transfers	(1,706)	(4,183)
Impairment provision	(2,117)	(1,591)
Currency translation differences	<u>3,540</u>	<u>2,888</u>
At end of the year	<u>70,042</u>	<u>60,171</u>

During the year ended 31 December 2016, the Group made an aggregate impairment provision of RMB2,117 million (2015: RMB1,591 million) against the carrying amounts of a number of associates. The impairment loss mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

The associates of the Group have been accounted by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

(b) Investments in redeemable instruments of associates

During the year ended 31 December 2016, the Group newly invested in redeemable instruments of associates of a number of investee companies and made additional investments in certain existing investee companies for aggregate considerations of RMB3,628 million. These new and additional investments mainly included investment companies that are principally engaged in online automotive financing business, online game businesses and other Internet-related businesses.

During the year ended 31 December 2016, the Group also made an impairment provision of approximately RMB1,298 million (2015: RMB47 million) against the carrying amounts of certain investments in redeemable instruments of associates based on the impairment assessment performed with reference to the business performances and recoverable amounts of these investee companies.

9 Available-for-sale financial assets

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Equity investments in listed entities	20,477	9,435
Equity investments in unlisted entities	62,580	34,879
Others	<u>749</u>	<u>25</u>
	<u>83,806</u>	<u>44,339</u>

Movement of available-for-sale financial assets is analysed as follows:

	2016	2015
	RMB'Million	RMB'Million
At beginning of the year	44,339	13,277
Additions ((i), (ii) and (iii))	37,319	18,039
Disposals and transfers	(2,755)	(932)
Changes in fair value (iv)	2,567	13,045
Impairment provision (v)	(1,028)	(586)
Currency translation differences	<u>3,364</u>	<u>1,496</u>
At end of the year	<u>83,806</u>	<u>44,339</u>

Note:

- (i) On 21 June 2016, a limited liability company and its subsidiaries established by the Group (the "Consortium") have agreed to acquire majority equity interest in Supercell ("Supercell Acquisition"). The consideration was to be financed by investments from the Group and co-investors in form of ordinary shares and preference shares in the Consortium, and bank borrowings by the Consortium ("Supercell Financing"). The Supercell Acquisition was completed in October 2016.

According to the provisions of the investment agreements of the Group and co-investors, the Group holds certain voting and non-voting redeemable and convertible interests in the Consortium. The Group considers its voting interests together with other arrangements do not give rise to sufficient ability for the Group to control the Consortium.

The Group's investment in Consortium was accounted for as compound financial instruments with the host component (substantially equity) recognised as available-for-sale financial assets of RMB18,985 million and embedded derivative recognised as other financial assets of RMB1,176 million.

The Group provided a guarantee and a put arrangement which were recognised as other financial liabilities and measured at their respective fair values.

- (ii) During the year ended 31 December 2016, the Group also made aggregate investments of approximately RMB5,800 million in listed entities in PRC, the United States, Sweden and Korea; as well as aggregate investments of approximately RMB5,612 million in unlisted entities operated in PRC and the United States. These companies are engaged in technology, O2O and other Internet-related services.
- (iii) The Group also made additional investments in certain investee companies with an aggregate amount of RMB6,922 million during the year ended 31 December 2016. These investee companies are principally engaged in the provision of O2O and other Internet-related businesses.
- (iv) Fair value gains of RMB2,567 million (2015: RMB13,045 million) were recognised in other comprehensive income during the year ended 31 December 2016 as a result of the remeasurement of the changes in fair values of the available-for-sale financial assets as at 31 December 2016.
- (v) The Group made an aggregate impairment provision of RMB1,028 million (2015: RMB586 million) against the carrying amounts of certain available-for-sale financial assets, with reference to their assessed fair values as at 31 December 2016.

10 Accounts receivable

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

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
0 - 30 days	3,260	3,616
31 - 60 days	4,019	2,209
61 - 90 days	1,294	798
Over 90 days	<u>1,579</u>	<u>438</u>
	<u>10,152</u>	<u>7,061</u>

Receivable balances as at 31 December 2016 and 31 December 2015 mainly represented amounts due from online advertising customers, telecommunications operators, and third party online/mobile apps platform providers.

Online advertising customers, which are mainly advertising agencies related to brand display advertising business, are usually granted with a credit period of 90 days after full execution of the contracted advertisement orders. Third party platform providers and telecommunication operators usually settle the amounts due by them within 60 days and a period of 30 to 120 days, respectively.

11 Entrustment value

In prior financial periods, the cash amount deposited with banks under users' entrustment (the "Entrustment Value") had been presented and reported as "Restricted cash" under current assets and corresponding liability in equivalent amount as "Other payables and accruals" under current liabilities.

During the year ended 31 December 2016, in light of changes in operating environment in the PRC, and based on the advice of the Company's legal advisor, the Group has formed a view that it holds the Entrustment Value as a custodian and the Group has amended its relevant users' agreements to reflect such effect. Accordingly, the Group no longer recognises in its consolidated financial statements the Entrustment Value prospectively. The Group's net assets, cash and bank balances available for use, and net operating cash flow will not be affected by this change in accounting treatment.

As at 2 July 2016, being the effective date of amendments to the users' agreements, the Entrustment Value amounted to approximately RMB125 billion.

12 Share option and share award schemes

(a) Share option schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III.

The Pre-IPO Option Scheme and the Post-IPO Option Scheme I expired on 31 December 2011 and 23 March 2014, respectively.

In respect of the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, 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. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

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		Total
	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2016	HKD80.59	25,697,305	HKD31.70	5,000,000	30,697,305
Granted	HKD160.11	11,843,070	—	—	11,843,070
Exercised	HKD29.69	(6,218,788)	HKD31.70	(2,500,000)	(8,718,788)
Lapsed	HKD42.72	<u>(74,151)</u>	—	<u>—</u>	<u>(74,151)</u>
At 31 December 2016	HKD120.95	<u>31,247,436</u>	HKD31.70	<u>2,500,000</u>	<u>33,747,436</u>
Exercisable as at					
31 December 2016	HKD86.69	<u>9,617,778</u>	—	<u>—</u>	<u>9,617,778</u>
At 1 January 2015	HKD57.36	36,432,000	HKD31.70	5,000,000	41,432,000
Granted	HKD149.22	1,470,875	—	—	1,470,875
Exercised	HKD18.28	(11,488,432)	—	—	(11,488,432)
Lapsed	HKD39.44	<u>(717,138)</u>	—	<u>—</u>	<u>(717,138)</u>
At 31 December 2015	HKD80.59	<u>25,697,305</u>	HKD31.70	<u>5,000,000</u>	<u>30,697,305</u>
Exercisable as at					
31 December 2015	HKD56.85	<u>8,844,117</u>	HKD31.70	<u>1,250,000</u>	<u>10,094,117</u>

During the year ended 31 December 2016, 3,750,000 options were granted to a director of the Company (2015: Nil).

(b) Share award schemes

The Company has adopted the Share Award Schemes, both of which are administered by an independent trustee appointed by the Group as of 31 December 2016. 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 2016 and 2015 are as follows:

	Number of awarded shares
At 1 January 2016	91,786,907
Granted	52,371,430
Lapsed	(3,809,202)
Vested and transferred	<u>(53,983,323)</u>
At 31 December 2016	<u>86,365,812</u>
Vested but not transferred as at 31 December 2016	<u>277,291</u>
At 1 January 2015	82,035,522
Granted	74,308,983
Lapsed	(6,746,336)
Vested and transferred	<u>(57,811,262)</u>
At 31 December 2015	<u>91,786,907</u>
Vested but not transferred as at 31 December 2015	<u>8,574,117</u>

During the year ended 31 December 2016, 61,474 awarded shares were granted to four independent non-executive directors of the Company (2015: 75,000 awarded shares were granted to three independent non-executive directors of the Company).

13 Accounts payable

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

	As at 31 December	
	2016	2015
	RMB' Million	RMB' Million
0 - 30 days	20,815	10,019
31 - 60 days	2,740	1,774
61 - 90 days	1,495	1,518
Over 90 days	<u>2,363</u>	<u>2,389</u>
	<u>27,413</u>	<u>15,700</u>

14 Borrowings

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	<u>57,549</u>	<u>12,922</u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	12,139	10,715
Current portion of long-term USD bank borrowings, unsecured (a)	<u>139</u>	<u>714</u>
	<u>12,278</u>	<u>11,429</u>
	<u>69,827</u>	<u>24,351</u>

Note:

- (a) The aggregate principal amount of long-term USD bank borrowings was USD8,316 million (2015: USD2,100 million). Applicable interest rates are at LIBOR plus 0.85% to 1.35% or an interest rate of 1.875% (2015: LIBOR plus 1.02% to 1.52%) per annum.
- (b) The aggregate principal amount of short-term USD bank borrowings was USD1,750 million (2015: USD1,650 million). Applicable interest rates are at LIBOR plus 0.70% to 0.75% (2015: LIBOR plus 0.75% to 0.85% or an interest rate of 1.125%) per annum.

15 Notes payable

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	32,461	33,583
Non-current portion of long-term HKD notes payable	<u>3,743</u>	<u>3,509</u>
	<u>36,204</u>	<u>37,092</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	<u>3,466</u>	<u>3,886</u>
	<u>39,670</u>	<u>40,978</u>

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD5,200 million (2015: USD5,800 million) and HKD4,200 million (2015: HKD4,200 million), respectively. The interest rate range of the notes payable is from 2.00% to 4.70% (2015: 2.00% to 4.70%) per annum.

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

16 CMC Integration

On 12 July 2016, the Group completed the integration of its online music business with CMC, a then existing associate of the Group which also operates online music business in the PRC. The Group injected its online music related operating assets and liabilities (the “Group’s Online Music Business”) into CMC in exchange for CMC’s new ordinary shares (the “CMC Integration”). Upon completion of the CMC Integration, the Group’s existing 15.8% ordinary shares in CMC (“Previously Held Interest”) was derecognised as a deemed disposal and CMC became a non-wholly owned subsidiary in which the Group owns 61.6% of the issued and outstanding shares.

As a result of the CMC Integration, the Group is expected to increase its presence in online music industry. Goodwill arising from the CMC Integration was attributable to operating synergies and economies of scale expected from integrating the operations of the Group’s Online Music Business with CMC. The goodwill recognised was not expected to be deductible for income tax purpose.

The following table summarises the fair value of assets acquired, liabilities assumed and the non-controlling interest recognised, on a provisional basis, as a result of the CMC Integration at the completion date.

	At completion date RMB'Million
Total consideration:	
The fair value of the equity interest of the Group's Online Music Business deemed to be issued by the Group	7,809
The Previously Held Interest in CMC deemed to be disposed	<u>2,483</u>
	<u>10,292</u>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	1,286
Other current assets	349
Intangible assets (mainly include licensed online contents and contractual customer relationship)	3,027
Other non-current assets	390
Other payables and accruals	(1,778)
Other liabilities	(668)
Deferred income tax liabilities	<u>(385)</u>
Total identifiable net assets	2,221
Non-controlling interests	(7,707)
Goodwill	<u>15,778</u>
	<u>10,292</u>

The fair value of the non-controlling interest in CMC was estimated by making reference to the above consideration of the CMC Integration. This consideration was adjusted for control premium and lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in CMC.

Transaction costs of CMC Integration were not significant and were charged to general and administrative expenses in the consolidated income statement during the year ended 31 December 2016.

The revenue and the results contributed by CMC to the Group for the period since the completion date were insignificant. The Group's revenue and results for the year would not be materially different should the CMC Integration otherwise occur on 1 January 2016.

The Group recognised a deemed disposal gain of RMB1,505 million recorded as "Other gains, net" during the year ended 31 December 2016, being the difference between the fair value of the Previously Held Interest in CMC as at the completion date and its then carrying value.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

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 2016.

Closure of Register of Members

(a) Entitlement to Attend and Vote at the 2017 AGM

The register of members will be closed from Monday, 15 May 2017 to Wednesday, 17 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2017 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 May 2017.

(b) Entitlement to the Proposed Final Dividend

The register of members will be closed from Tuesday, 23 May 2017 to Wednesday, 24 May 2017, 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, 22 May 2017.

Employee and Remuneration Policies

As at 31 December 2016, the Group had 38,775 employees (2015: 30,641). 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 programs, 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 2016 was RMB23,433 million (2015: RMB18,475 million).

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2016. 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.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Compliance with the Corporate Governance Code

Save as disclosed in the 2016 interim report and the corporate governance report in the 2015 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2016, complied with the CG Code.

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

Publication of the Annual Results, Annual Report and Corporate Governance Report

All the financial and other related information of the Company required by the Listing Rules will be published on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.tencent.com) in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our dedicated staff and management team for their commitment, diligence and professionalism. I would also like to express our sincere gratitude to the continuing support of our shareholders and stakeholders. We will continue to enrich our platforms with quality products and services for the development of a healthy and prosperous Internet ecosystem.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 22 March 2017

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

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

Jacobus Petrus (Koo) Bekker and Charles St Leger Searle; and

Independent Non-Executive Directors:

Li Dong Sheng, Iain Ferguson Bruce, Ian Charles Stone and Yang Siu Shun.

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

DEFINITION

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

Term	Definition
“2017 AGM”	the annual general meeting of the Company to be held on 17 May 2017 or any adjournment thereof
“AR”	augmented reality
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code provisions set out in Appendix 14 to the Listing Rules
“CIT”	corporate income tax
“CMC”	Tencent Music Entertainment Group (formerly known as China Music Corporation), a limited liability company incorporated under the laws of the Cayman Islands
“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
“DAU”	daily active user accounts
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards

“IFRS”	International Financial Reporting Standards
“IPO”	initial public offering
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	merger and acquisition
“MAU”	monthly active user accounts
“O2O”	online-to-offline, or offline-to-online
“Paradox”	Paradox Interactive AB (publ), a company incorporated in Sweden and listed on Nasdaq First North
“PC”	personal computer
“PCU”	peak concurrent user accounts
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PvP”	player versus player
“RMB”	the lawful currency of the PRC
“RPG”	role playing game

“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supercell”	Supercell Oy, a private company incorporated in Finland
“Tencent Charity Funds”	charity funds established by the Group
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services