Tencent 腾讯

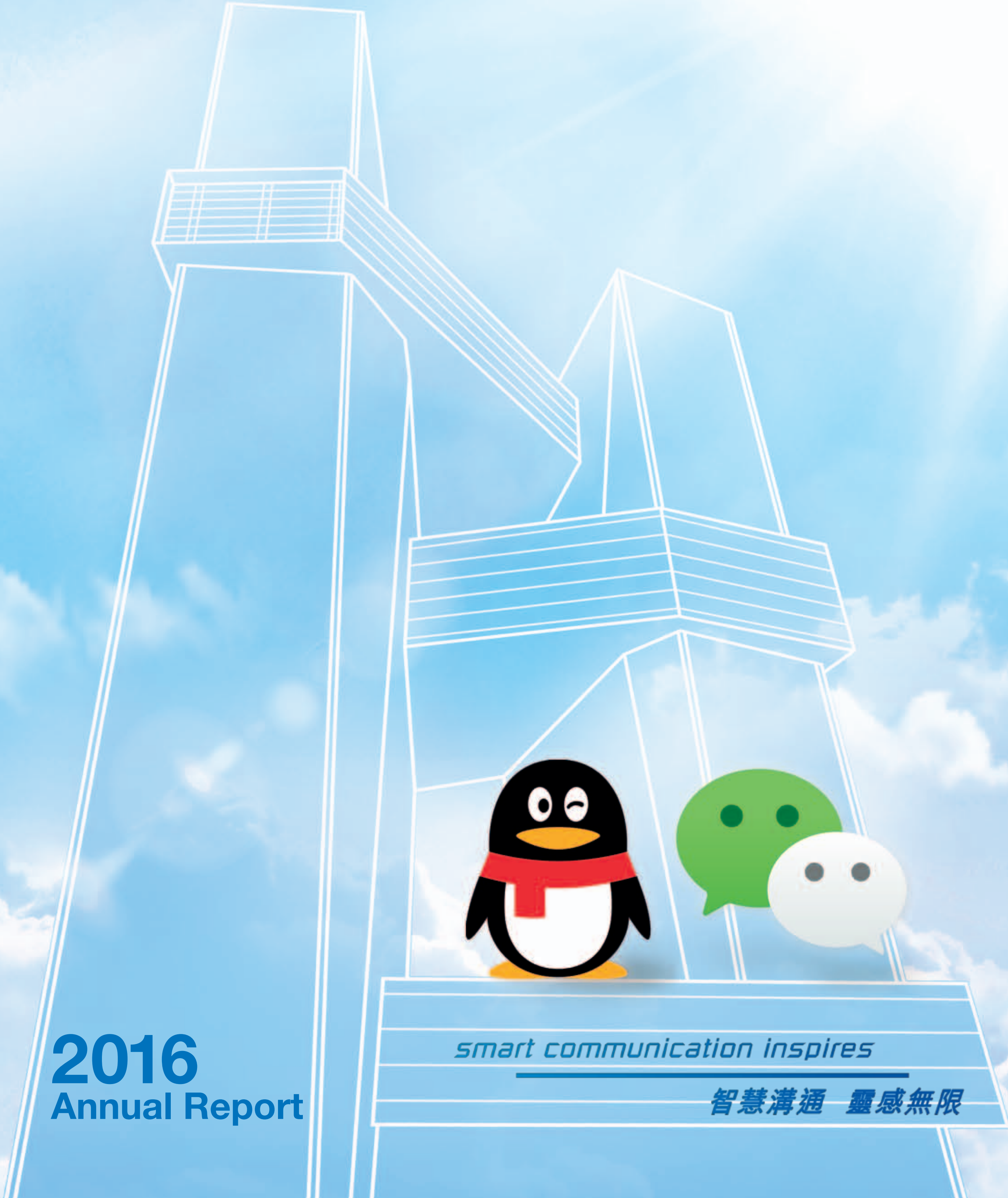
Tencent Holdings Limited

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)



2016
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
(appointed with effect from 1 July 2016)

AUDIT COMMITTEE

Iain Ferguson Bruce *(Chairman)*
Ian Charles Stone
Charles St Leger Searle
Yang Siu Shun
(appointed with effect from 1 July 2016)

CORPORATE GOVERNANCE COMMITTEE

Charles St Leger Searle *(Chairman)*
Iain Ferguson Bruce
Ian Charles Stone
Yang Siu Shun
(appointed with effect from 1 July 2016)

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 BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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

TENCENT GROUP HEAD OFFICE

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Nanshan District
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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

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

Financial Summary

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2012 RMB'Million	2013 RMB'Million	2014 RMB'Million	2015 RMB'Million	**2016** **RMB'Million**
Revenues	43,894	60,437	78,932	102,863	**151,938**
Gross profit	25,687	32,659	48,059	61,232	**84,499**
Profit before income tax	15,051	19,281	29,013	36,216	**51,640**
Profit for the year	12,785	15,563	23,888	29,108	**41,447**
Profit attributable to equity holders of the Company	12,732	15,502	23,810	28,806	**41,095**
Total comprehensive income for the year	13,619	18,376	21,975	44,723	**48,617**
Total comprehensive income attributable to equity holders of the Company	13,567	18,327	21,891	44,416	**48,194**
Non-GAAP profit attributable to equity holders of the Company*	14,287	17,008	24,737	32,410	**45,420**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2012 RMB'Million	2013 RMB'Million	2014 RMB'Million	2015 RMB'Million	**2016** **RMB'Million**
Assets					
Non-current assets	38,747	53,549	95,845	151,440	**246,745**
Current assets	36,509	53,686	75,321	155,378	**149,154**
Total assets	75,256	107,235	171,166	306,818	**395,899**
Equity and liabilities					
Equity attributable to equity holders of the Company	41,298	57,945	80,013	120,035	**174,624**
Non-controlling interests	850	518	2,111	2,065	**11,623**
Total equity	42,148	58,463	82,124	122,100	**186,247**
Non-current liabilities	12,443	15,505	39,007	60,312	**108,455**
Current liabilities	20,665	33,267	50,035	124,406	**101,197**
Total liabilities	33,108	48,772	89,042	184,718	**209,652**
Total equity and liabilities	75,256	107,235	171,166	306,818	**395,899**

* 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

Ma Huateng
Chairman

I am pleased to present our annual report for the year ended 31 December 2016 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2016 was RMB41,095 million, an increase of 43% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2016 were RMB4.383 and RMB4.329, respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the year ended 31 December 2016 was RMB45,420 million, an increase of 40% compared with the results for the previous year. Non-GAAP basic and diluted EPS for the year ended 31 December 2016 were RMB4.844 and RMB4.784, respectively.

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; and 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 services 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
		(in millions, unless specified)			
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 revenue[1] 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.

— *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.

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

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.

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.

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.

Ma Huateng
Chairman

Hong Kong, 22 March 2017

YEAR ENDED 31 DECEMBER 2016 COMPARED TO YEAR ENDED 31 DECEMBER 2015

	Year ended 31 December	
	2016	2015
	(RMB in millions)	
Revenues	**151,938**	102,863
Cost of revenues	**(67,439)**	(41,631)
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	**(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	**(2,522)**	(2,793)
Profit before income tax	**51,640**	36,216
Income tax expense	**(10,193)**	(7,108)
Profit for the year	**41,447**	29,108
Attributable to:		
Equity holders of the Company	**41,095**	28,806
Non-controlling interests	**352**	302
	41,447	29,108
Non-GAAP profit attributable to equity holders of the Company	**45,420**	32,410

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	**151,938**	**100%**	102,863	100%

— 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	**14,421**	**84%**	4,268	90%
Total cost of revenues	**67,439**		41,631	

— 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

	Unaudited Three months ended 31 December 2016	31 December 2015
	(RMB in millions)	
Revenues	**43,864**	30,441
Cost of revenues	**(20,238)**	(12,661)
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	**(6,909)**	(4,766)
Operating profit	**13,930**	10,888
Finance costs, net	**(483)**	(363)
Share of losses of associates and joint ventures	**(522)**	(1,329)
Profit before income tax	**12,925**	9,196
Income tax expense	**(2,402)**	(1,998)
Profit for the period	**10,523**	7,198
Attributable to:		
Equity holders of the Company	**10,529**	7,164
Non-controlling interests	**(6)**	34
	10,523	7,198
Non-GAAP profit attributable to equity holders of the Company	**12,332**	8,953

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	
	Amount	**% of total revenues**	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	**29,191**	**66%**	23,068	76%
Online advertising	**8,288**	**19%**	5,733	19%
Others	**6,385**	**15%**	1,640	5%
Total revenues	**43,864**	**100%**	30,441	100%

— 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	
	Amount	**% of segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**10,734**	**37%**	8,383	36%
Online advertising	**4,424**	**53%**	2,794	49%
Others	**5,080**	**80%**	1,484	90%
Total cost of revenues	**20,238**		12,661	

— 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

	Unaudited Three months ended	
	31 December 2016	30 September 2016
	(RMB in millions)	
Revenues	**43,864**	40,388
Cost of revenues	**(20,238)**	(18,560)
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	**(6,909)**	(5,883)
Operating profit	**13,930**	14,460
Finance costs, net	**(483)**	(604)
Share of losses of associates and joint ventures	**(522)**	(619)
Profit before income tax	**12,925**	13,237
Income tax expense	**(2,402)**	(2,461)
Profit for the period	**10,523**	10,776
Attributable to:		
Equity holders of the Company	**10,529**	10,646
Non-controlling interests	**(6)**	130
	10,523	10,776
Non-GAAP profit attributable to equity holders of the Company	**12,332**	11,737

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 Three months ended			Year ended	
	31 December 2016	30 September 2016	31 December 2015	**31 December 2016**	31 December 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 games and other content licences).

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 2016	30 September 2016	31 December 2015	**31 December 2016**	31 December 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 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 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					
	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)	Non-GAAP
	(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					
	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)	Non-GAAP
	(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					
	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)	Non-GAAP
	(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					
	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)	Non-GAAP
	(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					
	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)	Non-GAAP
	(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	**55,735**	47,919
	127,637	100,336
Borrowings	**(69,827)**	(49,790)
Notes payable	**(39,670)**	(42,178)
Net cash	**18,140**	8,368

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 arrangements, 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.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2016.

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 110 of this annual report.

The directors have recommended the payment of a final dividend of HKD0.61 per share for the year ended 31 December 2016. The dividend is expected to be payable on 2 June 2017 to the shareholders whose names appear on the register of members of the Company on 24 May 2017. The total dividend for the year under review is HKD0.61 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 2016, the Company had distributable reserves amounting to RMB18,345 million (2015: RMB10,374 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 114 to 115, Note 30, Note 31 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.

Directors' Report

BUSINESS REVIEW AND DIVIDEND

Details of the business review of the Group and the proposed dividend for the year ended 31 December 2016 are set out under the "Chairman's Statement".

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 30 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2016 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 33 and Note 34 to the consolidated financial statements respectively.

DONATION

The donation made by the Group to Tencent Charity Funds in the year was RMB570 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

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.

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.

As at 31 December 2016, there were a total of 11,250,000 outstanding share options granted to a director of the Company, details of which are as follows:

Name of director	Date of grant	Number of share options As at 1 January 2016	Granted during the year	Exercised during the year	As at 31 December 2016	Exercise price HKD	Exercise period
Lau Chi Ping Martin	24 March 2010	5,000,000	–	2,500,000 (Note 4)	2,500,000	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 (Note 5)	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 3)
	Total:	10,000,000	3,750,000	2,500,000	11,250,000		

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 30 March 2016 was HKD157.3.
5. The closing price immediately before the date on which the options were granted on 21 March 2016 was HKD157.9.
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 2016 are as follows:

	Number of share options						
Date of grant	As at 1 January 2016	Granted during the year	Exercised during the year (Note 10)	Lapsed during the year	As at 31 December 2016	Exercise price HKD	Exercise period
10 Jul 2009	182,300	–	182,300	–	–	18.06	10 Jul 2010 to 9 Jul 2016 (Note 1)
10 Jul 2009	664,950	–	664,950	–	–	18.06	10 Jul 2011 to 9 Jul 2016 (Note 2)
10 Jul 2009	2,003,750	–	2,003,750	–	–	18.06	10 Jul 2012 to 9 Jul 2016 (Note 3)
24 Nov 2009	1,250,000	–	1,250,000	–	–	29.32	24 Nov 2012 to 23 Nov 2016 (Note 3)
24 Mar 2010	25,000	–	–	–	25,000	31.70	24 Mar 2012 to 23 Mar 2017 (Note 2)
24 Mar 2010	366,667	–	366,667	–	–	31.70	24 Mar 2014 to 23 Mar 2017 (Note 4)
5 Jul 2010	137,250	–	80,500	–	56,750	26.08	5 Jul 2011 to 4 Jul 2017 (Note 1)
5 Jul 2010	1,800,500	–	694,125	48,800	1,057,575	26.08	5 Jul 2012 to 4 Jul 2017 (Note 2)
5 Jul 2010	1,557,500	–	193,700	–	1,363,800	26.08	5 Jul 2013 to 4 Jul 2017 (Note 3)
13 Aug 2010	12,500	–	12,500	–	–	30.14	13 Aug 2012 to 12 Aug 2017 (Note 2)
24 Mar 2011	876,250	–	77,500	–	798,750	38.88	24 Mar 2014 to 23 Mar 2018 (Note 3)
24 Mar 2011	250,000	–	–	–	250,000	38.88	24 Mar 2015 to 23 Mar 2018 (Note 4)
15 Aug 2011	128,800	–	44,050	7,250	77,500	37.80	15 Aug 2012 to 14 Aug 2018 (Note 1)
15 Aug 2011	828,000	–	207,300	–	620,700	37.80	15 Aug 2013 to 14 Aug 2018 (Note 2)

Date of grant	As at 1 January 2016	Granted during the year	Exercised during the year (Note 10)	Lapsed during the year	As at 31 December 2016	Exercise price HKD	Exercise period
	Number of share options						
15 Aug 2011	100,000	–	50,000	–	50,000	37.80	15 Aug 2014 to 14 Aug 2018 (Note 3)
13 Sep 2012	762,500	–	47,750	9,500	705,250	49.76	13 Sep 2013 to 12 Sep 2019 (Note 1)
25 Mar 2014	2,562,500	–	–	–	2,562,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 5)
25 Mar 2014	3,850,000	–	125,000	–	3,725,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 1)
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 5)
10 July 2014	1,724,813	–	179,309	5,376	1,540,128	124.30	10 Jul 2015 to 9 Jul 2021 (Note 6)
12 Dec 2014	80,650	–	–	–	80,650	116.40	12 Dec 2016 to 11 Dec 2021 (Note 7)
2 Apr 2015	525,000	–	–	–	525,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 6)
10 Jul 2015	945,875	–	39,387	3,225	903,263	148.90	10 Jul 2016 to 9 Jul 2022 (Note 6)
21 Mar 2016	–	6,675,000	–	–	6,675,000	158.10	21 Mar 2017 to 20 Mar 2023 (Notes 6 and 8)
6 Jul 2016	–	1,418,070	–	–	1,418,070	174.86	6 Jul 2017 to 5 Jul 2023 (Notes 6 and 9)
Total:	20,697,305	8,093,070	6,218,788	74,151	22,497,436		

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 1 year 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 2 years 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 3 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 4 years 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 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.

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 1 year 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 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.

8. The closing price immediately before the date on which the options were granted on 21 March 2016 was HKD157.9.

9. The closing price immediately before the date on which the options were granted on 6 July 2016 was HKD176.4.

10. The weighted average closing price immediately before the date on which the options were exercised was HKD180.6.

Details of movements of share options granted to employees and certain external consultants under the equity plans adopted by CMC, a subsidiary in the Group, during the period commencing from the date of completion of the CMC integration (i.e. 12 July 2016) and ending on 31 December 2016 are as follows:

	Number of share options							
Date of grant	As at 12 July 2016	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	As at 31 December 2016	Exercise price USD	Exercise period
1 Mar 2015	14,780,435	–	–	–	–	14,780,435	0.000083	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	15,125,760	–	–	–	2,053,800	13,071,960	0.29	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	26,880,000	–	–	–	–	26,880,000	0.29	1 Mar 2016 to 28 Feb 2025 (Note 2)
1 Mar 2015	7,482,654	–	–	–	–	7,482,654	0.35	1 Mar 2016 to 28 Feb 2025 (Note 2)
30 Mar 2015	3,869,842	–	–	–	–	3,869,842	0.29	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Jul 2015	200,000	–	–	–	–	200,000	0.29	1 Jul 2016 to 30 Jun 2025 (Note 1)
1 Jul 2015	3,600,000	–	–	–	–	3,600,000	0.29	1 Jul 2016 to 30 Jun 2025 (Note 2)
1 Oct 2015	938,800	–	–	–	30,000	908,800	0.29	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	3,448,491	–	–	–	–	3,448,491	0.29	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	345,300	–	–	–	–	345,300	0.000083	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	908,000	–	–	–	–	908,000	0.29	1 Mar 2017 to 28 Feb 2026 (Note 1)
1 Mar 2016	500,000	–	–	–	33,000	467,000	0.29	1 Mar 2017 to 28 Feb 2026 (Note 2)
31 Mar 2016	390,000	–	–	–	–	390,000	0.29	31 Mar 2017 to 30 Mar 2026 (Note 1)
1 Jun 2016	800,000	–	–	–	–	800,000	0.000083	1 Jun 2017 to 30 May 2026 (Note 2)
1 Jun 2016	6,521,513	–	–	–	–	6,521,513	0.29	1 Jun 2017 to 30 May 2026 (Note 3)
30 Jun 2016	600,000	–	–	–	–	600,000	0.000083	30 Jun 2016 to 29 Jun 2026 (Note 1)
30 Jun 2016	12,430,852	–	–	–	–	12,430,852	0.29	30 Jun 2016 to 29 Jun 2026 (Note 1)
Total:	98,821,647	–	–	–	2,116,800	96,704,847		

Note:

1. The first 25% of the total options can be exercised 1 year after the commencement date as specified in the relevant grant letter, and each 12.5% of the total options will become exercisable in each subsequent six months.

2. The first 25% of the total options can be exercised 1 year after the commencement date as specified in the grant letter, and each 6.25% of the total options will become exercisable in each subsequent quarter. When a certain condition is satisfied, the vesting schedule for the remaining options will be accelerated by 1 year and the remaining options can be exercised in equal installments on a quarterly basis during the accelerated vesting period.

3. 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.

4. No options were granted, exercised or cancelled during the period.

SUMMARY OF THE SHARE OPTION SCHEMES

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

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
3.	Maximum number of shares	As at 7 June 2004, options to subscribe for an aggregate of 72,386,370 shares were outstanding. No further option could be granted under the Pre-IPO Option Scheme.	As at 16 May 2007, options to subscribe for an aggregate of 60,413,683 shares were outstanding. No further option could be granted under the Post-IPO Option Scheme I.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 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 and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued share capital of the Company from time to time (Note).	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall be 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 and the Post-IPO Option Scheme II, must not in aggregate exceed 30% of the issued share capital of the Company from time to time (Note).

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

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
6.	Acceptance of offer	Options granted must be accepted within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	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.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III
8.	Remaining life of the scheme	It expired on 31 December 2011.	It expired on 23 March 2014.	It shall be valid and effective for a period of ten years commencing on 16 May 2007.	It shall be valid and effective for a period of ten years commencing on 13 May 2009.

Note:

The total numbers of shares available for issue under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III are 229,078,185 and 175,093,330 respectively, which represent approximately 2.42% and 1.85% 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 32 to the consolidated financial statements.

VALUATION OF SHARE OPTIONS

Details of the valuation of share options during the year are set out in Note 32 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 of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant.
3.	Maximum number of shares that can be awarded	2% of the issued share capital of the Company as at the Adoption Date I (i.e. 178,776,160 shares (after the effect of the Share Subdivision))	3% of the issued share capital 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 share capital 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 share capital 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 in 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, the SFO or any other applicable law or regulation or where the requisite approval from any applicable regulatory authority 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 52,371,430 Awarded Shares were granted under the 2013 Share Award Scheme and out of which, 61,474 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 32 to the consolidated financial statements.

During the year, a total of 73,159,488 shares were issued to option holders who exercised their share options granted under the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, and pursuant to the Share Award Schemes.

As at 31 December 2016, there were a total of 192,724 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 2016	Granted during the year	Vested during the year	As at 31 December 2016	Vesting period
Iain Ferguson Bruce	17 March 2011	20,000	–	20,000	–	17 March 2012 to 17 March 2016
	24 March 2014	40,000	–	10,000	30,000	24 March 2015 to 24 March 2019
	2 April 2015	30,000	–	7,500	22,500	2 April 2016 to 2 April 2019
	21 March 2016	–	20,000	–	20,000	21 March 2017 to 21 March 2020
	Total:	90,000	20,000	37,500	72,500	
Ian Charles Stone	17 March 2011	15,000	–	15,000	–	17 March 2012 to 17 March 2016
	24 March 2014	40,000	–	10,000	30,000	24 March 2015 to 24 March 2019
	2 April 2015	30,000	–	7,500	22,500	2 April 2016 to 2 April 2019
	21 March 2016	–	20,000	–	20,000	21 March 2017 to 21 March 2020
	Total:	85,000	20,000	32,500	72,500	

Name of director	Date of grant	Number of Awarded Shares As at 1 January 2016	Granted during the year	Vested during the year	As at 31 December 2016	Vesting period
Li Dong Sheng	24 March 2014	20,000	–	5,000	15,000	24 March 2015 to 24 March 2019
	2 April 2015	15,000	–	3,750	11,250	2 April 2016 to 2 April 2019
	21 March 2016	–	10,000	–	10,000	21 March 2017 to 21 March 2020
	Total:	35,000	10,000	8,750	36,250	
Yang Siu Shun	6 July 2016	–	11,474	–	11,474	6 July 2017 to 6 July 2020
	Total:	–	11,474	–	11,474	
	Grand Total:	210,000	61,474	78,750	192,724	

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 (appointed with effect from 1 July 2016)

In accordance with Article 87 of the Articles of Association, Mr Lau Chi Ping Martin and Mr Charles St Leger Searle will retire at the 2017 AGM and, being eligible, will offer themselves for re-election. In addition, in accordance with Article 86(3) of the Articles of Association, Mr Yang Siu Shun, who was appointed as director with effect from 1 July 2016, will hold office until the 2017 AGM and, being eligible, will offer himself 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 45, 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 12th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 23 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 43, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science degree in Electrical Engineering from the University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong. On 10 March 2014, Mr Lau was appointed as a director of JD.com, Inc., an online direct sales company in China, which has been listed on NASDAQ since May 2014. On 31 March 2014, Mr Lau was appointed as a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, which has been listed on New York Stock Exchange since April 2014. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company.

Jacobus Petrus (Koos) Bekker, age 64, 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 on public bodies. In April 2015, he succeeded Mr Vosloo as 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 53, 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 23 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 59, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation and the Chairman of the Hong Kong listed TCL Multimedia Technology Holdings Limited, both of which produce consumer electronic products. Mr Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange. Mr Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on New York Stock Exchange Euronext. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 22 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.

Iain Ferguson Bruce, age 76, 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 52 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 an independent non-executive director of Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, The 13 Holdings Limited (formerly known as Louis XIII 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 a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited and 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 an independent non-executive director of Vitasoy International Holdings Limited, a beverage manufacturing company, up to 4 September 2014, and of Sands China Ltd., an operator of integrated resorts and casinos, up to 11 March 2016, both of these companies are publicly listed on the Stock Exchange.

Ian Charles Stone, age 66, 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 27 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 46 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 61, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 12th 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, a Board Member and the Audit Committee Chairman of the Hang Seng Management College 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 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 45, 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 41, Chief Operation Officer and President of Interactive Entertainment Group, Mobile Internet Group and Online Media 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 Interactive Entertainment Group, Mobile Internet Group and Social Network Group. He is also in charge of the operation of Online Media Group starting from 24 March 2017. Prior to joining the Company, Mr Ren has worked in Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008. Mr Ren currently serves as a director or officer of certain subsidiaries of the Company.

James Gordon Mitchell, age 43, Chief Strategy Officer and Senior Executive Vice President, joined the Company in August 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 50, Senior Executive Vice President and Chairman of Tencent Advertising, Group Marketing and Global Branding, joined the Company in 2006. Mr Lau serves as Chairman of Tencent Advertising, Group Marketing and Global Branding starting from 24 March 2017 and is responsible for overseeing the Company's Advertising, Group Marketing and Global Branding businesses as well as developing international strategic partnership relationship. Before that, he was in charge of Online Media Group. Mr Lau is a seasoned professional in the media industry with a rare 22 years of on-ground China market experience. In 2007, Mr Lau sat in the advisory board for ad:tech, the globally renowned organisation for Online Marketing. Mr Lau held the post of Vice President of China Advertising Association since 2007. Mr Lau was appointed as the Adjunct Professor of School of Journalism and Communication by Xiamen University in 2010 and also by Fudan University in 2014. Prior to joining the Company, Mr Lau was the Managing Partner of Publicis China and Chief Executive Officer for BBDO China, as well as a few management positions in other multinations. Mr Lau received an EMBA degree from Rutgers State University of New Jersey, USA. He also completed the Advanced Marketing Management program, and the Advanced Management Program (AMP) in Harvard Business School. In 2011, Mr Lau was honoured by New York based AdAge publication as one of "The World's 21 Most Influential People in Marketing and Media Industry, 2009-2010". In 2015, he is named as Global Media Person of the year award by Cannes Lions International Festival of Creativity. Mr Lau currently sits as a board member in the Asia Pacific Advisory Board of Harvard Business School.

Tong Tao Sang, age 43, Senior Executive Vice President and President of Social Network Group, joined the Company in 2005. Mr Tong started as a technical architect, and led the product development of the social network platform, Qzone. He drove the open platform initiative of Qzone, which led to the development of the performance advertising business and the cloud services. Since May 2012, Mr Tong has been responsible for the QQ messaging and Qzone social networking platforms, the VIP subscriptions business, QQ Music and the Tencent Cloud 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 47, 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 42, 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 42, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company's active participation in new and emerging technologies, business areas, and ideas from his base in Palo Alto, California. Mr Wallerstein has worked on Tencent's entrance into new business areas since 2001. 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 43, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr Ma served as a General Manager of Games Division of OPTIC Communication Co., Ltd. Prior to that, Mr Ma worked as a General Manager in Shanghai EasyService Technology Development Ltd. Mr Ma graduated from Shanghai Jiaotong University, and received an EMBA degree from Fudan University in 2008. Mr Ma currently serves as a director of certain subsidiaries of the Company.

John Shek Hon Lo, age 48, 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 appointed as the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr Lo received a Bachelor of Business in Accounting 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 44, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of administration, legal affairs, government relations, charity fund, procurement as well as the functional management of the branches in Beijing, Shanghai and Chengdu. Mr Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996. Mr Guo currently serves as a director of a subsidiary of the Company.

Xi Dan, age 41, 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 21 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 can be extended by agreement between the Company and Mr Ma. The Company may terminate the service contract by three months' written notice at any time, subject to paying his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination becomes effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years ending 31 December 2018. 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 2017 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 2016, 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)	827,507,500	8.73%
Lau Chi Ping Martin	Personal *	43,718,000 (Note 2)	0.46%
Li Dong Sheng	Personal *	36,300 (Note 3)	0.0004%
Iain Ferguson Bruce	Personal *	490,000 (Note 4)	0.005%
Ian Charles Stone	Personal *	160,000	0.004%
	Family +	240,000	
		400,000 (Note 5)	
Yang Siu Shun	Personal *	11,474 (Note 6)	0.0001%

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng, holds 729,507,500 shares directly and 98,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.

2. The interest comprises 32,468,000 shares and 11,250,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out above under "Share Option Schemes".

3. The interest comprises 50 shares and 36,250 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 417,500 shares and 72,500 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 327,500 shares and 72,500 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 11,474 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 2016.

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 itself or through their subsidiaries under the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company). As a result of the Structure Contracts, the Group is able to recognise and receive the economic benefit of the business and operations of the OPCOs. The Structure Contracts are also designed to provide the Company with effective control over and (to the extent permitted by PRC law) the right to acquire the equity interests in and/or assets of the OPCOs.

For a summary of the major terms of the Structure Contracts, please refer to the sections headed "Our History and Structure" and "Structure Contracts" in the IPO prospectus. During the year ended 31 December 2016, 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 2016

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 affiliated 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 is the registered owners and business activities of the OPCOs which had entered into transactions with the Group during the year ended 31 December 2016:

Name of the operating companies	Registered owners as at 31 December 2016	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	50% by Chen Guangyu 50% by Tang Yibin	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 RMB100 billion for the year ended 31 December 2016 and approximately RMB18 billion as at 31 December 2016 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 2016 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Tencent Information Shenzhen, Tencent Chengdu, Tencent Information Chongqing, Tencent Information Shanghai, Tencent Shanghai, Tencent Wuhan and Hainan Network. 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 2016 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 2016, 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 RMB40,525,000,000, RMB3,129,000,000, RMB13,948,000,000, RMB4,233,000,000, RMB4,687,000,000, RMB1,270,000,000, RMB669,000,000, RMB693,000,000, RMB4,514,000,000 and RMB525,000,000 were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan, Tencent Information Chongqing, Hainan Network, Tencent Information Shenzhen and Tencent Information Shanghai respectively. In addition, during the year, Internet data center service fee amounting to approximately RMB486,000,000 was paid or payable by Tencent Computer to Cyber Tianjin, and IOS account usage fee amounting to RMB50,000, RMB50,000, RMB50,000 and RMB50,000 were paid or payable to Tencent Technology, Cyber Tianjin, Tencent Beijing and Tencent Shanghai 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 RMB42,000,000, RMB9,000,000, and RMB313,000,000 was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB21,000,000, RMB109,000,000, and RMB358,625 was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB739,544, RMB6,000,000, and RMB3,000,000 was paid or payable by Beijing Starsinhand to Tencent Technology, Cyber Tianjin, and Tencent Beijing respectively.

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

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

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

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

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

Other connected transactions

Save as the related parties transaction disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 20 (Transactions with associates), Note 24 (Loan to investees and investees' shareholders) and Note 32 (Share-based payments) to the consolidated financial statements, no related parties transactions disclosed in the consolidated financial statements constitutes a discloseable connected transaction as defined under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, 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)	3,151,201,900	33.25%
Advance Data Services Limited	Long position	Corporate (Note 2)	827,507,500	8.73%
JPMorgan Chase & Co.	Long position	Beneficial owner	180,688,514	
		Investment manager	101,272,431	
		Trustee (other than a bare trustee)	43,070	
		Custodian corporation/ approved lending agent	283,913,097	
		Total (Note 3(i)):	565,917,112	5.97%
	Short position	Beneficial owner (Note 3(ii))	66,820,440	0.71%

Note:

1. MIH TC is controlled by Naspers Limited through its wholly-owned intermediary companies, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited. As such, Naspers Limited, MIH (Mauritius) Limited, MIH Ming He Holdings Limited and MIH Holdings Proprietary Limited are deemed to be interested in the same block of 3,151,201,900 shares under Part XV of the SFO.

2. Advance Data Services Limited holds 729,507,500 shares directly and 98,000,000 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".

3. (i) Such long position includes derivative interests in 35,842,496 underlying shares of the Company of which 11,670,973 underlying shares are derived from listed and physically settled derivatives, 2,565,400 underlying shares are derived from listed and cash settled derivatives, 14,768,059 underlying shares are derived from unlisted and physically settled derivatives and 6,838,064 underlying shares are derived from unlisted and cash settled derivatives. It also includes 283,913,097 shares in lending pool.

   (ii) Such short position includes derivative interests in 35,228,087 underlying shares of the Company of which 8,227,800 underlying shares are derived from listed and physically settled derivatives, 14,010,790 underlying shares are derived from listed and cash settled derivatives, 4,128,936 underlying shares are derived from unlisted and physically settled derivatives and 8,810,561 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, the Company had not been notified of any other persons (other than a director or chief executive of the Company) who, as at 31 December 2016, had interests or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the five largest customers of the Group accounted for approximately 3.67% of the Group's total revenues while the largest customer of the Group accounted for approximately 1.20% of the Group's total revenues. In addition, for the year ended 31 December 2016, the five largest suppliers of the Group accounted for approximately 19.45% of the Group's total purchases while the largest supplier of the Group accounted for approximately 6.55% of the Group's total purchases.

None of the directors, their 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 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.

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 code provisions as set out in 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.

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 the 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 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 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 2016 was RMB23,433 million (2015: RMB18,475 million).

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

(A) Entitlement to Attend and Vote at the 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.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2017 AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 22 March 2017

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the code provisions as set out in the CG Code. The Board believes that throughout the year ended 31 December 2016, 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 role of the chairman and chief executive and A.4.2 regarding the retirement and re-election of directors.

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

BOARD OF DIRECTORS

Responsibilities

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

The Board has defined the business and governance issues for which it needs to be responsible, 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 sub-committees with clear terms of reference and responsibilities as appropriate;
- defines levels of delegation in respect of specific matters, with required authority to Board sub-committees and management;
- monitors non-financial aspects pertaining to the 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 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 or 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 of any mergers, acquisitions and disposals.

Nomination Committee

- reviews and monitors the structure, size, composition and diversity of the Board in light of the Company's strategy;
- identifies 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 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 work of the committees during the year 2016 is set out on pages 74 to 77.

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 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 2016, 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 2016:

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[2]	√

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

2 Mr Yang Siu Shun was appointed as an independent non-executive director of the Company with effect from 1 July 2016.

Maintaining a high level of corporate governance and integrity cannot depend solely on the Board's efforts; each of the Group's employees is also required to contribute to such cause. A code of conduct policy with an emphasis on integrity and respect is distributed by the Company to all employees and forms part of their employment agreements.

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 role 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 together with the senior management team, 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 2016, 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 at an appropriate time.

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 2016 and up to the date of this annual report, there is no change to the composition of the Board except that Mr Yang Siu Shun has been appointed as an independent non-executive director with effect from 1 July 2016.

A list of directors and their respective biographies are set out on pages 45 to 47 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 2016 annual general meeting, Messrs Jacobus Petrus (Koos) Bekker and Ian Charles Stone retired and were re-elected.

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

The Chairman, in accordance with the Articles of Association, whilst holding such office is not subject to retirement by rotation nor taken into account in determining the number of directors to retire in each year. Therefore, there is a deviation from code provision A.4.2 of the CG Code. The Chairman is one of the founders of the Group and he plays a key role in the growth and development of the Group and his continuing presence in the Board is vital to assure sustainable development of the Group. Given the importance of the Chairman's role in the development of the Group, the Board considers that the 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 meets four times during the year as a minimum and, during the year of 2016, it met five times. 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:

	Attendance/ No. of Board, Committee Meetings and Annual General Meeting					
Name of director	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Executive directors						
Ma Huateng	5/5			1/1		1/1
Lau Chi Ping Martin	5/5					1/1
Non-executive directors						
Jacobus Petrus (Koos) Bekker	5/5				4/4	1/1
Charles St Leger Searle	5/5	8/8	2/2	1/1		1/1
Independent non-executive directors						
Li Dong Sheng	5/5			1/1	1/4	0/1
Iain Ferguson Bruce	5/5	8/8	2/2	1/1		1/1
Ian Charles Stone	5/5	8/8	2/2	1/1	4/4	1/1
Yang Siu Shun*	3/3	4/4	1/1			

* Mr Yang Siu Shun was appointed as an independent non-executive director of the Company with effect from 1 July 2016.

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 the Corporate Governance Committee, the Investment Committee and the Nomination Committee were revised in July 2016 to ensure 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 Iain Ferguson Bruce, Mr Ian Charles Stone, Mr Yang Siu Shun (appointed as a member of the Audit Committee with effect from 1 July 2016) (all of them are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). Mr Iain Ferguson Bruce, who chairs the Audit Committee, and Mr Charles St Leger Searle and Mr Yang Siu Shun have appropriate professional qualifications and experiences in financial matters.

The Audit Committee meets not less than four times a year; in 2016 the Audit Committee met eight times. Individual attendance of each Audit Committee member is set out on page 73. 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 main work during the year 2016 includes reviewing:

- the 2015 annual report, including the Corporate Governance Report, Directors' Report and the financial statements, as well as the related results announcement;
- the 2016 interim report and interim results announcement;
- the 2016 first and third quarters results announcements;
- compliance with the CG Code, the Listing Rules and relevant laws;
- in relation to the external auditor, their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;

- the plans (including those for 2016), 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 Group'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 2017 AGM.

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle (non-executive director), Mr Iain Ferguson Bruce, Mr Ian Charles Stone and Mr Yang Siu Shun (appointed as a member of the Corporate Governance Committee with effect from 1 July 2016) (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 2016. Individual attendance of each Corporate Governance Committee member is set out on page 73.

During 2016, the Corporate Governance Committee 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, and reviewed the Company's policies and practices on corporate governance, and 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 2016, the Investment Committee met once, and had also 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 2016. Individual attendance of each Nomination Committee member is set out on page 73.

During 2016, the Nomination Committee reviewed board composition and director succession, and the board diversity policy. The Nomination Committee has also identified, discussed, considered and made a recommendation to the Board on the proposed appointment of Mr Yang Siu Shun as an independent non-executive director of the Company. 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 2016. Individual attendance of each Remuneration Committee member is set out on page 73.

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 main work during the year 2016 includes the following:

- reviewing and recommending to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with a similar scale to ensure that the Company's remuneration packages are competitive to recruit the best talents in the industry and to retain key staff;
- reviewing and recommending to the Board on the remuneration packages for the directors, including Mr Yang Siu Shun (who was appointed as an independent non-executive director with effect from 1 July 2016);
- assessing performance and, reviewing and approving amendments 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 to 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 level of risk 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. The Audit Committee oversees the management of the design, implementation and monitoring of risk management and internal control systems.

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" 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 functions of internal audit and anti-fraud investigation under the IA.

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.

The anti-fraud investigation function 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 has 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.

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" 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.

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 includes 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 2016, the Company identified and determined the significant risks of the Company through the risk management process detailed above.

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 key risks which 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. With the growth of business scale, extent, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

1. *Market competition and innovation risk*

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

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

The Company not only encourages its employees to innovate, but also allocates considerable resources to the research and development of new technologies and the optimatisation of features as well as enhancement of user experience of products.

2. *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.

In order to mitigate this risk, the Company has backup infrastructure and a disaster recovery mechanism in place to support disaster recovery functions. In addition, the Company has established dedicated teams to develop business contingency plans and perform periodic drills on the plans to ensure its effectiveness. Various business departments are also engaged in emergency procedures, to ensure the smooth operation of the Company's businesses and business continuity.

3. *Acquisition and investment management risk*

With the Company's increased investment activities, 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 realisation 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.

In addition, there is a designated professional team that regularly reviews the Company's cash position and, continuously expands 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.

Moreover, the Company has allocated delicated resources from IA and IC perspectives to support management of its controlling subsidiaries to continuously established sound risk management and internal control systems.

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 negative impact on 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 to 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. *Governance policies and regulations 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.

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. In addition, the Company also actively exchanges view and information with relevant regulatory authorities on the trend and development of Internet industry.

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 strictly controls third party access to the content on the Company's platform and products and prohibits businesses that are not in compliance with laws and regulations. The Company has also established supervisory and whistleblowing mechanisms to minimise and manage the spread of illegal and malicious information.

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 it is appropriate and effective.

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 put 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.

Management Self-assessment

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, ensure that management has implemented appropriate measures and report 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, and the external auditors, 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 2016, 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 work report from the Audit Committee, the Board also believes that the Company's internal audit function is adequate with sufficient resources and budget. The relevant staff has appropriate qualifications and experience, and receives sufficient training and development.

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 2016 annual general meeting, with a view to understand the views of the Company's shareholders. The company secretary provided the minutes of 2016 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 procedures set out in the Company Website.

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

In order to ensure that shareholders' interests and rights are adequately protected, 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 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 these information below which has not been covered above.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code. 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 2016.

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 100 to 108. During the year ended 31 December 2016, 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, certain of its subsidiaries and acquired entities. The non-audit services conducted by the external auditor mainly include professional services on risk management and internal control review, mergers and acquisitions advisory and tax advisory.

Framework for Disclosure of Inside Information

The Company has put 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 2016. 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 aims. 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 responsibility within society.

At the heart 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; environmental protection, staff development and community welfare are always 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

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 wider society.

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, encouraging 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, facilitating 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 Office Buildings

In order to reduce the energy consumption in our Shenzhen headquarter, we have optimised the air conditioning system, upgraded the building automation system, and installed equipment with new functions for better efficiency. These optimisations have enabled us to efficiently reduce energy consumption for the air conditioning system and for the whole building, and to reduce our CO_2 emissions. This energy saving project has been certified by the China Academy of Building Research and accredited by Shenzhen local authority. We are among the first companies which were granted subsidies from the Ministry of Housing and Urban-Rural Development of the PRC for the energy saving efforts. The project has set a good precedent not only for our other office buildings but also for other office buildings in Shenzhen.

In addition, we have installed a direct drinking water system in our Shenzhen headquarter in replacement of bottled water. It reduces the use of plastic packaging materials and indirectly reduces the CO_2 emissions generated from the delivery of bottled water. This effective energy saving measure will also be implemented in our offices in other PRC cities in the future.

We are also actively involved in the design of our new office building in Shenzhen and have taken energy saving considerations into account during the process.

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.

Our T-block west lab is the fourth generation of our data centres and it is the most innovative. It has adopted: (i) photovoltaic + HVDC technology for electrical design which offers a clean and effective energy source; (ii) indirect evaporative cooling units to cool down entire block modules; and (iii) machine-learning automated system which monitors the energy level for rack space and minimises the power usage effectiveness (the index of which is lower when it is more effective). These technologies tremendously improve the energy efficiency of the data centre. For example, our T-block west lab now only needs 70% of previously required energy for the same capability.

In our Shanghai Qingpu CCHP (Combined Cooling Heating and Power) project, we have built a distributed power station that uses a natural gas generator and flue gas hot water type lithium bromide unit as the core component for electricity and cooling capability required by the data centre. The natural gas-fired distributed power system enables energy cascading. We use high-quality natural gas with high efficiency to generate high-quality electricity. Steam and condensation produced from the power generation are re-used for cooling. The overall energy utilisation can be increased by up to approximately 80%.

For our Qingpu data centre, we have one of the largest photovoltaic grids used by a data centre in the PRC which provides 100% clean energy. In phase one of the project, we have built 3,000 square metres of photovoltaic grid which produces 300Mwh electricity and reduces CO_2 emission by 200 tonnes on an annual basis. The solar panel on the rooftop is also thermally insulated so it helps save energy in summer.

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 employees are one of our most important assets, we have been investing heavily in employee development and training. In 2007, we founded our own corporate university, Tencent Academy. Throughout 2016, the number of the average in-house training hours per employee was 26.1 while the number of online trainings completed by our employees in total was 157,753. Tencent Academy 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. 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 have a full-time staff of 38,775 as at 31 December 2016. 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.

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 advance our strategy.

We have been voted as one of the best employers in the PRC for five consecutive years since 2012 in a survey jointly conducted by zhaopin.com and the Institute of Social Science Survey, Peking University. We care for the well-being of our employees. For example, we celebrate special occasions of our employees (e.g. anniversary of joining us, wedding and festivities) by giving them different employee benefits. 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 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 regards 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

We value our relationship with our employees and handle employee departure (whether by resignation or dismissal) strictly in accordance with applicable laws and regulations.

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

COMMUNITY

Community Investment

We set up the Tencent Charity Foundation (the "Tencent Foundation") on 26 June 2007. It is a non-public fundraising foundation incorporated in the PRC and a separate legal entity. We commit to donating certain portion of our profits to the Tencent Foundation every year for the purpose of supporting charitable works including but not limited to developing an online charity platform, poverty relief, disaster relief and education development. As the first charity foundation set up by an Internet company in the PRC, the Tencent Foundation promotes the idea of "Charity 2.0" (i.e. everyone can participate in the charity work anytime and anywhere, and even small donations count).

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+".

Over 4,000 charitable organisations have joined our online charity platform and initiated more than 20,000 charity projects in different locations with different focuses. The total number of donations made by the Internet users is approximately 91 million and the total amount of the funds raised is over RMB1.57 billion.

As of 31 December 2016, our Group and our employees have donated over RMB1.9 billion and RMB60 million in total to the Tencent Foundation respectively since its establishment. During the year 2016, our Group and our employees have donated RMB570 million and RMB10.5 million to the Tencent Foundation respectively.

In addition to operating the online charity platform, the Tencent Foundation is also actively involved in charity work in the following areas: (i) disaster relief; (ii) rural development; (iii) education; (iv) ecological conservation and cultural preservation; (v) community development; and (vi) medical care.

Disaster relief

In response to 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. For example, the Tencent Foundation donated RMB2 million for the earthquake in Nepal in 2015 and paid the transportation costs of RMB100,000 for the relief supplies. In 2016, it donated approximately RMB4 million to support the emergency rescue missions in the PRC floods.

Rural development

In 2009, the Tencent Foundation donated no less than RMB50 million on an experimental charity project in Yunnan for the purpose of rediscovering the value of villages and connecting villagers by increasing Internet penetration in rural areas.

Education

The Tencent Foundation has set up scholarships to promote education in the PRC, Hong Kong and other countries throughout the years. There are also specific donations for different education initiatives. For example, it donated RMB100 million to support the future education reform in a secondary school in Shenzhen. In 2013, it also set up a RMB1 million fund to sponsor the five-year development programme of a secondary school in Sichuan after the earthquake of that year. In 2016, it donated RMB5.35 million in aggregate in the education related projects.

Ecological conservation and cultural preservation

The Tencent Foundation is keen on environmental protection and cultural preservation. For example, it donated RMB6.1 million to the Sichuan Western Nature Preservation Foundation in 2015 and RMB12.5 million to the China Foundation for Cultural Heritage Conservation for the establishment of “Great Wall Funds” in 2016.

Community development

The Tencent Foundation has sponsored charitable organisations such as the China Charity Foundation Development Centre, the China Foundation for Development of Financial Education and the China Charity Alliance.

Medical care

The Tencent Foundation has donated approximately RMB13 million in aggregate to help underprivileged children with medical conditions (such as autism and cerebral palsy) in developing areas. For example, in 2016, it donated RMB5 million to the Ai You Foundation to set up two child focused medical care centres for orphaned patients in Chongqing and Urumqi. It also donated RMB200,000 to the Shenzhen Children's Hospital to build an interactive activity room "Vcare" for children patients.

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 100,000 hours of voluntary services. We launch more than 200 volunteering activities with more than 5,000 participants every year. In 2016, the Tencent Volunteers' Association was awarded a spot in the list of Top 10 Best Volunteer Organisations in Guangdong Province.

There are eight sub-divisions under the Tencent Volunteers' Association in various cities including Beijing, Shanghai, Chengdu and Guangzhou. These sub-divisions include poverty support, scholarship, environmental protection, care for children with special needs and green network. The Tencent Volunteers' Association works closely with the Tencent Foundation in relation to the funding of the projects.

The Tencent Volunteers' Association combines its expertise in technology to help the community. For example, it has set up an online platform to help search for missing persons with the assistance of our marketing and advertising resources and technology. As at the date of this report, more than 40 missing children have been found through our platform.

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

In 2005, we formulated the Sunshine Code based on the core value of the Group –"Integrity". All employees of the entire Group are required to follow and to strictly comply with the Sunshine Code. It expressly prohibits all kinds of fraudulent activity, bribery, and any other activities which are not in compliance with applicable laws and regulations. To ensure our employees comply with the requirements stipulated in the Sunshine Code, all employees are required to complete e-learning programmes and attend various face-to-face training programmes introducing the rules and standards of the Sunshine Code on a regular basis.

Concurrently, in order to protect and safeguard the interests of the Group and to maintain integrity in the Group's business dealings, we have adopted an Anti-fraud and Whistleblowing Policy (the "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 potential fraudulent activities. The Policy 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.

When a report of suspected fraudulent activities is received, the anti-fraud investigation team, which consists of professionals with 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, and corrective actions shall be taken in response to the findings at the same time. In the event that any fraudulent activity violates any relevant laws or regulations, such cases shall be reported to government authorities.

Anti-Money Laundering

In 2016, the Group strictly abided by all applicable laws and regulations on anti-money laundering and anti-terrorism financing, and fulfilled its social responsibilities and legal obligations on anti-money laundering.

We treat financial security as the lifeline of our business and have implemented sound financial crime control mechanisms in our business development. We have robust systems and measures to detect, deter and protect our business from involvement in financial crimes such as money laundering and terrorist financing. Our protective measures include, but are not limited to, the following:

Three lines of defence

Our first line of defence is the product team and the business development team. The risk management team and anti-money laundering team serve as the second line while the internal audit team acts as the third line of defence.

Anti-money laundering and internal control systems

We have: (i) formulated a set of anti-money laundering policies based on the applicable anti-money laundering laws and regulations; (ii) implemented an anti-money laundering monitoring system; and (iii) set up a dedicated anti-money laundering team, which is solely responsible for compliance management, anti-money laundering name screening and suspicious transaction monitoring.

Other control measures

We have further improved the anti-money laundering compliance and internal risk control mechanisms by: (i) recruiting more anti-money laundering professionals for suspicious transaction review and analysis in order to enhance the effectiveness and specialisation level of anti-money laundering; (ii) strengthening the requirements for the know-your-customer procedures; (iii) enhancing the overall monitoring system of suspicious transaction and manual analysis; (iv) cooperating with regulators and law enforcement on anti-money laundering investigation; (v) actively participating in the strike on terrorism and corruption internationally, in order to prevent money laundering and upstream criminal activities; and (vi) carrying out various forms of training, education, and public relation activities on anti-money laundering.

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 2016, all suppliers which were formally engaged have completed the Self-Assessment and signed the Anti-commercial Bribery Declaration. We are not aware of any of our suppliers engaging in commercial bribery, or being materially and adversely affected by issues relating to environmental and social responsibility.

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 and marketing 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 the 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 a dedicated privacy team within the Legal Department which is responsible for handling data protection matters. We have devised specific procedures to collect and process user data to ensure that we provide our products and services in accordance with applicable legal requirements. 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 publish our privacy protection policies on our product websites and in-app products. We also provide communication channels for our users to file complaints and raise enquiries whenever they are in doubt.

We actively participate in shaping the development of the industry framework on privacy protection and we have been accredited with privacy certifications from TRUSTe for WeChat, which is the leading global data privacy management company and powers trust in the data economy by enabling businesses to safely collect and use customer data across web, mobile, cloud and advertising channels.

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 government authorities in the PRC which regulate the online gaming business include: (i) the Ministry of Culture; (ii) the State Administration of Press, Publication, Radio, Film and Television; (iii) the Ministry of Industry and Information Technology; and (iv) the State Administration for Industry & Commerce.

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 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" and "The Interim Measures for the Administration of Online Games" promulgated by the Ministry of Culture. The aims of such laws include the regulation of the qualifications of operating entities of online games, the regulation of the content 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, for example, 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.

Intellectual Property Rights

We are a technology-oriented company and we stress the importance of the observation and protection of IP rights. We have established a dedicated IP team with approximately 80 employees as of 31 December 2016 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 2016, we had obtained over 10,000 officially registered trademarks and over 5,000 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 enforce 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 have several times been awarded "China Patent Gold Awards" by the State Intellectual Property Office of the PRC and "China Trademark Awards" jointly by World Intellectual Property Organization and the State Administration for Industry & Commerce of the PRC, 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.

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

Independent Auditor's Report

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 109 to 226, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- 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 2016, 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/mobile games value added services – estimates of the lifespan of virtual products/items
- Impairment assessments of goodwill, investments in associates and investments in redeemable instruments of associates
- Classification of investments
- Fair value measurement of financial instruments, including available-for-sale financial assets and other derivative financial instruments

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition on provision of online/mobile games value added services – estimates of the lifespan of virtual products/items	
Refer to Note 4(a) 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 Internet and mobile platforms. The relevant revenue is recognised over the lifespan 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 2016, a majority of the Group's revenue from value added services was contributed from online/mobile 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 judgements in determining the expected users' relationship periods for certain virtual products/items. These judgements included (i) the determination of key assumptions applied in the expected users' relationship periods, including but not limited to historical users' consumption pattern, churn rates and reactivity on marketing activities, games life-cycle, as well as the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected users' relationship periods.	We discussed with management and evaluated their judgements on key assumptions in determining the estimated lifespan 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 lifespan of new virtual products/items prior to their launches; and (ii) changes in the estimated lifespan 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 testing the information system logic for generation of reports, and checking, 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 pattern 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 investments in redeemable instruments of associates	
Refer to Notes 4(b), 19, 20 and 22 to the consolidated financial statements As at 31 December 2016, the Group held significant amounts of goodwill, investments in associates and investments in redeemable instruments of associates amounting to RMB22,927 million, RMB70,042 million and RMB9,627 million, respectively. Impairment provision of RMB277 million, RMB2,117 million and RMB1,298 million had been recognised during the year ended 31 December 2016 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 judgements 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 containing 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 containing goodwill, investments in associates and investments in redeemable instruments of associates using discounted cash flows, we assessed the key assumptions adopted including revenue growth rate, discount rate and other working capital requirement 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 investments in redeemable instruments of associates (Cont'd)	
	In respect of the impairment assessments of cash generating units that containing goodwill and investments in associates 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.
Classification of investments	
Refer to Note 20, 22, 23, 39 and 40 to the consolidated financial statements During the year ended 31 December 2016, the Group made significant amounts of investments under different arrangements or in different forms of financial instruments, in an aggregate amount of approximately RMB61,525 million. We focused on this area due to the magnitude of the investments and the fact that significant judgements were made by management in determining the appropriate classification for certain investments that involved complex terms and arrangements.	We read the contracts and agreements in relation to those significant investments made in the current year and discussed with management to obtain an understanding on the details of such investments, including relevant activities of the investee companies and how decisions about those activities are made, how the Group and other investors participate in the decisions, the rights and power of the Group and other investors on the investee companies, other arrangements or transactions among the Group, other investors and the investee companies and respective returns from the investments. We also discussed with management and obtained management assessment to understand their critical judgements and the classification that they had applied. We also assessed the terms and conditions of selected significant investments, including evaluation of indication or evidence of power found in the detailed arrangement of these investments, in order to assess whether appropriate classification had been adopted by management in relation to those investments based on the consideration of the totality of facts, which we found no material exceptions.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments, including available-for-sale financial assets and other derivative financial instruments	
Refer to Notes 3.3, 23 and 25 to the consolidated financial statements As at 31 December 2016, the Group's financial assets which were carried at fair value comprised available-for-sale financial assets and other derivative financial instruments of approximately RMB83,806 million and RMB3,409 million, respectively, of which approximately RMB65,599 million of these financial assets 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 judgement 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 2016 by evaluating the underlying assumptions including discount rates, projected growth rates, marketability discount, market information of comparable companies (such as recent transactions and earnings multiples) based on our industry knowledge 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 Wilson W. Y. Chow.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'Million	2015 RMB'Million
Revenues			
Value-added services		**107,810**	80,669
Online advertising		**26,970**	17,468
Others		**17,158**	4,726
	5	**151,938**	102,863
Cost of revenues	8	**(67,439)**	(41,631)
Gross profit		**84,499**	61,232
Interest income	6	**2,619**	2,327
Other gains, net	7	**3,594**	1,886
Selling and marketing expenses	8	**(12,136)**	(7,993)
General and administrative expenses	8	**(22,459)**	(16,825)
Operating profit		**56,117**	40,627
Finance costs, net	9	**(1,955)**	(1,618)
Share of losses of associates and joint ventures	10	**(2,522)**	(2,793)
Profit before income tax		**51,640**	36,216
Income tax expense	11	**(10,193)**	(7,108)
Profit for the year		**41,447**	29,108
Attributable to:			
Equity holders of the Company		**41,095**	28,806
Non-controlling interests		**352**	302
		41,447	29,108
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	12(a)	**4.383**	3.097
– diluted	12(b)	**4.329**	3.055

The notes on pages 118 to 226 are an integral part of these consolidated financial statements.

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	**41,447**	29,108
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
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**	–
Items that may not be subsequently reclassified to profit or loss		
Other fair value (losses)/gains	**(244)**	736
	7,170	15,615
Total comprehensive income for the year	**48,617**	44,723
Attributable to:		
Equity holders of the Company	**48,194**	44,416
Non-controlling interests	**423**	307
	48,617	44,723

The notes on pages 118 to 226 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	As at 31 December 2016 RMB'Million	2015 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**13,900**	9,973
Construction in progress	17	**4,674**	4,248
Investment properties		**854**	292
Land use rights	18	**5,174**	2,293
Intangible assets	19	**36,467**	13,439
Investments in associates	20	**70,042**	60,171
Investments in redeemable instruments of associates	22	**9,627**	6,230
Investments in joint ventures		**630**	544
Available-for-sale financial assets	23	**83,806**	44,339
Prepayments, deposits and other assets	24	**7,363**	5,480
Other financial assets	25	**1,760**	–
Deferred income tax assets	26	**7,033**	757
Term deposits	27	**5,415**	3,674
		246,745	151,440
Current assets			
Inventories		**263**	222
Accounts receivable	28	**10,152**	7,061
Prepayments, deposits and other assets	24	**14,118**	11,397
Other financial assets	25	**1,649**	1,198
Term deposits	27	**50,320**	37,331
Restricted cash	29	**750**	54,731
Cash and cash equivalents	29	**71,902**	43,438
		149,154	155,378
Total assets		**395,899**	306,818

Consolidated Statement of Financial Position

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	**RMB'Million**	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	30	**–**	–
Share premium	30	**17,324**	12,167
Shares held for share award schemes	30	**(3,136)**	(1,817)
Other reserves	31	**23,693**	9,673
Retained earnings		**136,743**	100,012
		174,624	120,035
Non-controlling interests		**11,623**	2,065
Total equity		**186,247**	122,100
LIABILITIES			
Non-current liabilities			
Borrowings	33	**57,549**	12,922
Notes payable	34	**36,204**	37,092
Long-term payables	35	**4,935**	3,626
Other financial liabilities		**2,576**	–
Deferred income tax liabilities	26	**5,153**	3,668
Deferred revenue	36	**2,038**	3,004
		108,455	60,312

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	As at 31 December 2016 RMB'Million	2015 RMB'Million
Current liabilities			
Accounts payable	37	**27,413**	15,700
Other payables and accruals	38	**20,873**	70,199
Borrowings	33	**12,278**	11,429
Notes payable	34	**3,466**	3,886
Current income tax liabilities		**5,219**	1,608
Other tax liabilities		**745**	462
Deferred revenue	36	**31,203**	21,122
		101,197	124,406
Total liabilities		**209,652**	184,718
Total equity and liabilities		**395,899**	306,818

The notes on pages 118 to 226 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 109 to 226 were approved by the Board of Directors on 22 March 2017 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 2016

	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 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 15)	–	–	–	–	(3,699)	(3,699)	(914)	(4,613)
Non-controlling interests arising from business combinations (Notes 39 and 40)	–	–	–	–	–	–	7,802	7,802
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note 31)	–	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 financial 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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	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 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 (Note 15)	–	–	–	–	(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 (Note 31)	–	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

The notes on pages 118 to 226 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'Million	2015 RMB'Million
Cash flows from operating activities			
Cash generated from operations	41(a)	**76,034**	50,478
Income tax paid		**(10,516)**	(5,047)
Net cash flows generated from operating activities		**65,518**	45,431
Cash flows from investing activities			
Proceeds from/(Payments for) business combinations, net of cash acquired		**1,285**	(1,349)
Net inflow of cash in respect of the disposal of subsidiaries		**619**	82
Purchase of property, plant and equipment, construction in progress and investment properties		**(8,399)**	(5,440)
Proceeds from disposals of property, plant and equipment		**31**	70
Payments for acquisition of investments in associates		**(8,934)**	(11,423)
Proceeds from disposals of investments in associates		**1,107**	1,106
Payments for acquisition of investments in redeemable instruments of associates		**(3,324)**	(2,394)
Proceeds from disposals of investments in redeemable instruments of associates		**266**	–
Payments for acquisition of investments in joint ventures		**(62)**	(500)
Proceeds from disposals of investments in joint ventures		**3**	–
Purchase/Prepayment of intangible assets		**(8,849)**	(4,620)
Proceeds from disposals of intangible assets		**–**	115
Purchase/Prepayment of land use rights		**(1,506)**	(3,045)
Payments for available-for-sale financial assets and related derivative financial instruments		**(33,556)**	(13,001)
Proceeds from disposals of available-for-sale financial assets		**1,637**	223
Payments for loan to investees		**(2,994)**	(842)
Proceeds from settlement of loan to investees and other receipts related to investees		**4,046**	–
Receipt from maturity of term deposits with initial terms of over three months		**42,319**	61,810
Placement of term deposits with initial terms of over three months		**(57,049)**	(87,186)
Interest received		**1,718**	2,274
Dividends received		**719**	515
Net cash flows used in investing activities		**(70,923)**	(63,605)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	**2,387**	8,565
Repayment of short-term borrowings	**(1,734)**	–
Proceeds from long-term borrowings	**55,394**	8,581
Repayment of long-term borrowings	**(13,957)**	(2,200)
Repayment of convertible bonds	**(494)**	–
Net proceeds from issuance of notes payable	**–**	13,619
Repayment of notes payable	**(4,132)**	(1,917)
Proceeds from issuance of ordinary shares	**225**	169
Shares withheld for share award schemes	**(1,936)**	(652)
Proceeds from capital injection from non-controlling interests	**1,393**	99
Proceeds from disposals of non-controlling interests in a non-wholly owned subsidiary	**267**	–
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(1,364)**	(4,547)
Dividends paid to the Company's shareholders	**(3,699)**	(2,640)
Dividends paid to non-controlling interests	**(907)**	(549)
Net cash flows generated from financing activities	**31,443**	18,528
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	**2,426**	371
Cash and cash equivalents at end of the year	**71,902**	43,438

The notes on pages 118 to 226 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 interest in the Company.

Under a series of contractual arrangements (collectively, "Structure Contracts") entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, recognise and receive substantially all the economic 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 without making any payment; and
- the right to control the management and financial and operating policies of Tencent Computer.

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.2(a) and Note 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 available-for-sale financial assets 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Amendments to standards adopted by the Group

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

(b) New standards and amendments to standards that have been issued but not effective

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:

(i) IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. Revenue is recognised when a customer obtains control of a goods or service and thus has the ability to direct the use and obtain the benefits from the goods or service. This standard is effective for annual periods beginning on or after 1 January 2018 and earlier adoption is permitted. The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group does not intend to adopt this standard before its effective date while a full retrospective approach is expected to be applied upon the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified that the application of IFRS 15 may affect the measurement and timing of recognition of revenues as a result of identification of different performance obligations and behaviors of different customers portfolios. At this stage, the Group is not in a position to estimate the impact on the Group's consolidated financial statements while the Group will make more detailed assessments of the impact over the next twelve months.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) New standards and amendments to standards that have been issued but not effective (Cont'd)

(ii) IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income which will not be recycling to the profit and loss. While management of the Group has just commenced an assessment on the classification and measurement of its financial assets, the potential impact to the future financial statements has yet to be determined but management considers that certain investments in equity instruments currently classified as available-for-sale financial assets might fall within the classification as at fair value through profit or loss, hence, there might be a change to the accounting of these assets.

There will be 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 does not have any such liabilities.

The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's established risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, given the standard introduces a more principle-based approach. Nevertheless, the Group has not yet undertaken a detailed assessment but management expect that the Group's current hedge relationships might likely be qualified as continuing hedges upon the adoption of IFRS 9.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(b) New standards and amendments to standards that have been issued but not effective (Cont'd)

(ii) IFRS 9 "Financial instruments" (Cont'd)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, management expects it might result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. The Group does not intend to adopt this standard before its mandatory effective date.

(iii) IFRS 16 "Lease"

IFRS 16 will result in almost all leases being recognised on the statement of financial position, 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.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. However, the Group has just commenced its assessment and have not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt this standard before its effective date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are 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 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. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

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)

2.2 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 accordance with IAS 39 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)

2.2 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.

2.3 Associates

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

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.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Associates (Cont'd)

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including associates and joint arrangements (Note 2.4), 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.

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. A full gain or loss is recognised when a transaction involves a business whereas a partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. 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.

The Group's investments in associates in the form of redeemable instruments are accounted for as compound financial instruments (Note 2.27).

2.4 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 profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. A full gain or loss is recognised when a transaction involves a business whereas a partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. 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)

2.5 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 interest 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 interest is taken to the consolidated income statement. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the consolidated income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

2.6 Partial disposal of associates to available-for-sale financial assets

When the Group loses significant influence over an associate, it measures any retained investment at fair value. A profit or loss is recognised at any difference between the fair value of any retained interest plus any proceeds from disposing of the part interest in the associate and the carrying amount of the investment at the date the equity method 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.

2.7 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.

2.8 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)

2.8 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.

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Foreign currency translation (Cont'd)

(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 currency instruments designated as hedges of such investments, are taken to other comprehensive income.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs includes expenditure 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 financial period in which they are incurred.

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

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

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

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to 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 2.14).

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)

2.10 Investment properties

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

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

2.11 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 or capitalised in construction in progress upon completion of construction.

2.12 Intangible assets

(a) Goodwill

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.12 Intangible assets (Cont'd)

(b) Licensed online contents

The licensed online contents mainly include video and music contents. They are initially recognised and measured at cost or estimated fair value of intangible assets acquired through business combinations. Licensed online contents are amortised using a straight-line method or accelerated method which reflect 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 three 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.

2.13 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".

2.14 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the 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)

2.15 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.15 Financial assets (Cont'd)

(b) Recognition and measurement

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

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

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

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale financial assets equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

2.16 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 the event of default, insolvency or bankruptcy of the company or the counterparty.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.17 Impairment of financial assets

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

(a) Assets carried at amortised cost

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

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

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognised in the 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)

2.17 Impairment of financial assets (Cont'd)

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

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence 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 principle 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.

2.18 Derivative financial instruments 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 their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or (iii) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.18 Derivative financial instruments and hedging activities (Cont'd)

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within "other gains/(losses), net". When the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "Other gains/(losses), net".

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

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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

2.23 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 liabilities

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Financial guarantee contracts

The financial guarantee contract of the Group is the 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 is initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee.

2.26 Borrowings and notes payable

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 period using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan 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 pre-payment for liquidity services and amortised over the period 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, 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 2016, finance cost capitalised was insignificant to the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.27 Compound financial instruments

Compound financial instruments held by the Group comprise equity instruments with redemption features of associates and convertible bonds of a subsidiary that can be converted to share capital at the option of the holder.

The Group either (i) accounts for different components of the compound financial instruments separately or (ii) designate 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 compound 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 2.15 and 2.18.

For convertible bonds issued by a subsidiary of the Group, the entire instrument is designated as liabilities at fair value through profit or loss including derivative, they are initially recognised at fair value and subsequently carried at fair value with changes in fair value recognised.

2.28 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax 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 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 financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Current and deferred income tax (Cont'd)

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. 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 profits 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 income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.29 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 entity. 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 service in the current and prior periods. 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 scheme prior to vesting fully in the contributions.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Employee benefits (Cont'd)

(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 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, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share premium under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing models - Black-Scholes valuation model (the "BS Model") and "Enhanced FAS 123" binomial model (the "Binomial Model"), which include the impact of market performance conditions (such as the Company's share price) but exclude the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. The Group also adopts valuation technique to assess the fair value of other equity instruments of the Group granted under the share-based compensation plans as appropriate.

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Employee benefits (Cont'd)

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

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 payment made to the employee 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 employee and other qualifying participants, as measured at the date of modification.

2.30 Provisions

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.31 Revenue recognition

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

(a) VAS

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

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

The Group sells the prepaid credits through various channels such as sales agents appointed by the Group, telecommunication operators, third party platform providers, broadband service providers and Internet cafes, etc. The end users can register the prepaid credits to their user accounts in the Group's platforms and then gain access to the Group's paid online products or services. Receipts from the sales of prepaid credits are deferred and recorded as "Deferred revenue" in the consolidated statement of financial position (see Note 36).

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

In respect of 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 "Internet and Mobile Service Fees") on behalf of the Group and they are entitled to a pre-determined percentage of commission fee (defined as "Channel costs"). The Channel costs are withheld and deducted from the gross Internet and Mobile Service Fees collected by these platforms from the users, with the net amounts remitted to the Group. The Group recognises the Internet and Mobile Service Fees as revenue on a gross basis, given it is the principal in these transactions, and recognises the Channel costs as cost of revenues.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.31 Revenue recognition (Cont'd)

(a) VAS (Cont'd)

The Group also opens its Internet and mobile platforms to third-party game/application developers under certain co-operation agreements, of which the Group pays a pre-determined percentage of the fees paid by and collected from the users of the Group's Internet and mobile platforms for the virtual products/items purchased to the third-party game/application developers. 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 also defers the related revenue, either on gross or net basis, over the estimated lifespan of the respective virtual products/items, given there is an implicit obligation of the Group to maintain and allow access of the users of the games/applications operated by the developers through its platforms.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. The primary factor is whether the Group acting as the principal in offering services to the customer or as an agent in the transaction. The Group has determined that it is acting as the principal in offering services wherever the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in suppliers selection; and (iv) has involvement in the determination of product or services specifications. The Group adopted 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 performance based and display based advertisements.

Revenue from performance based advertisements is recognised based on actual performance measurement. The Group recognises the revenue from the delivery of pay-for click, pay-for download or pay-for instant display advertisements for advertisers to users of the Group based on the relevant performance measures.

Revenue from displaying advertisements is recognised ratably over the respective contract periods with the advertisers and their advertising agencies, when the related advertisements are displayed.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.32 Interest income

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

2.33 Dividend income

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

2.34 Government grants/subsidies

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

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

2.35 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.

2.36 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.

2.37 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 criterias 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 RMB, 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 entities. 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 through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

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 2016, the Group's major monetary assets and liabilities that exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
As at 31 December 2016		
Monetary assets, current	**8,606**	**1,035**
Monetary liabilities, current	**(3,365)**	**(177)**
Monetary liabilities, non-current	**(276)**	**(5,470)**
	4,965	**(4,612)**
As at 31 December 2015		
Monetary assets, current	3,169	286
Monetary liabilities, current	(2,186)	(37)
Monetary liabilities, non-current	–	(3,509)
	983	(3,260)

During the year ended 31 December 2016, the Group reported exchange gains of approximately RMB212 million (2015: exchange losses of approximately RMB108 million) within "Finance costs, net" in the consolidated income statement.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

At 31 December 2016, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies of the Group's entities 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 Group's entities' function currency are considered to be insignificant. Accordingly, no sensitivity analysis is presented for foreign exchange risk (2015: Nil).

(ii) Price risk

The Group is exposed to price risk mainly arising from investments that are classified as available-for-sale financial assets held by the Group (Note 23). To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments made by the Group are 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 risks of available-for-sale financial assets at the end of each of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2015: 5%) higher/lower as at 31 December 2016, the other comprehensive income would have been approximately RMB3,879 million (2015: RMB2,067 million) higher/lower.

(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 loan 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 24, 27 and 29.

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 33 and 34, which representing 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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk (Cont'd)

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.

During the year ended 31 December 2016, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its 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 have the economic effect of converting borrowings from floating rates to fixed rates and were qualified as hedging accounting. The Group's outstanding interest rate swap contracts as at 31 December 2016 have been detailed in Note 25.

At 31 December 2016 and 2015, management considers that any reasonable changes in the interest rates would not result in a significant change in the Group's results as 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 are 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, other debt investments, as well as accounts and other receivables. 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. To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

The Group has policies in place to ensure that revenues of on credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties.

The Group's online advertising that are sales to/through advertising agencies or directly to the advertisers 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. Provisions are made for past due balances when management considers the loss from the customers is likely. The Group's historical experience in collection of receivables falls within the recorded allowances.

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

In view of the history of co-operation with these third party platform providers and telecommunication operators, and the sound financial position and collection history of receivables due from these counterparties, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these counterparties is low (see Note 28 for details).

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(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.

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.

	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 2016					
Notes payable	**4,738**	**6,444**	**26,603**	**8,224**	**46,009**
Long-term payables	**–**	**2,005**	**2,178**	**917**	**5,100**
Borrowings	**13,520**	**6,464**	**51,110**	**3,367**	**74,461**
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	**37,904**	**–**	**–**	**–**	**37,904**
	56,162	**14,913**	**79,891**	**12,508**	**163,474**
At 31 December 2015					
Notes payable	5,271	4,409	29,747	7,951	47,378
Long-term payables	–	1,282	2,347	95	3,724
Borrowings	11,774	6,826	6,415	–	25,015
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	77,915	–	–	–	77,915
	94,960	12,517	38,509	8,046	154,032

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 referred to the 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 reflecting 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	
	2016	2015
	RMB'Million	RMB'Million
Borrowings	**69,827**	24,351
Notes payable	**39,670**	40,978
Total debts	**109,497**	65,329
Adjusted EBITDA (Note)	**66,863**	45,805
Total debts/Adjusted EBITDA Ratio	**1.64**	1.43

Note:

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

The movement in the ratio is mainly caused by additional borrowings during the year ended 31 December 2016.

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 2016 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 2016				
Available-for-sale financial assets	**19,995**	**508**	**63,303**	**83,806**
Other financial assets	**–**	**1,113**	**2,296**	**3,409**
Other financial liabilities	**–**	**–**	**2,576**	**2,576**
As at 31 December 2015				
Available-for-sale financial assets	9,435	7,419	27,485	44,339
Other financial assets	–	736	462	1,198
Convertible bonds	–	–	588	588

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

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

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

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of 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 2016, an available-for-sale financial asset was transferred from level 2 to level 1 of fair value hierarchy classifications.

The following table presents the changes of financial instruments in level 3 instruments for the years ended 31 December 2016 and 2015:

	Financial assets		Financial liabilities	
	2016	2015	**2016**	2015
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance	**27,947**	6,276	**588**	489
Additions	**30,757**	15,766	**2,557**	–
Disposals and transfers/settlement	**(526)**	(1,030)	**(491)**	–
Changes in fair value	**5,651**	5,939	**(98)**	67
Impairment provision	**(708)**	(65)	**–**	–
Currency translation differences	**2,478**	1,061	**20**	32
Closing balance	**65,599**	27,947	**2,576**	588

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Valuation processes of the Group (Level 3)

The Group has a team of personnel who perform valuation on these level 3 instruments for financial reporting purposes. The team performs valuation, or necessary updates, at least once every quarter, which coincide 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 private investment funds and unlisted companies, other financial instruments and convertible bonds. As these instruments are not traded in an active market, their fair values have been determined using various applicable valuation techniques, including discounted cash flows, comparable transactions approaches, and other option pricing models etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of weighted average cost of capital (WACC), recent market transactions, discount for lack of marketability and other exposure etc. Other financial liabilities included guarantee provided by the Group on certain put arrangements of an investee company and put options issued by the Group to certain investors of an investee company, at a pre-determined pricing formula. The fair values of these instruments determined by the Group requires significant judgement, including the likelihood of non-performing by the investee company, financial performance of the investee company, market value of comparable companies as well as discount rate, etc.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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 lifespan of virtual products/items provided in the Group's Internet and mobile platforms

As mentioned in Note 2.31(a), the end users purchase certain virtual products/items provided in the Group's Internet and mobile platforms and the relevant revenue is recognised based on the estimated lifespan of the virtual products/items. The estimated lifespan 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 judgements are required in determining the expected users' relationship periods, included but not limited to historical users' consumption pattern, 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 lifespan 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 lifespan 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 than in prior periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(b) Recoverability of non-financial assets and investments in redeemable instruments of associates

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, and investments in associates and joint ventures, as well as investments in redeemable instruments of associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to identify any impairment indicators existed for any of the Group's goodwill and non-financial assets, to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment reviews purpose, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect 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 available-for-sale financial assets and other financial assets

The fair values assessment of available-for-sale financial assets and other financial assets that are measured at level 3 fair value hierarchy required significant estimates, which includes estimating the future cash flows, determining appropriate discount rates and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. The Group monitors its investments for impairment by considering factors including, but not limited to, current economic and market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including current earnings trends and other company-specific information.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(d) Classification of investments

The Group made certain significant amounts of investments that involved complex terms and arrangements, and in different forms of financial instruments during the year. Judgement is required in determining the appropriate classification for these investments including assessing the relevant activities of the investee companies and its decisions making process on those activities that involving the Group, if any and its other investors, the rights and power of the Group and other investors on the investee companies, any other arrangements or transactions among the Group, its other investors and/or the investee companies, and the Group's returns from the investments.

Different conclusions around these judgements may materially impact how these investments presented and measured in the consolidated statement of financial position of the Group.

(e) Share-based compensation arrangements

As mentioned in Note 2.29(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the dividend adjusted Black-Scholes option pricing model and "Enhanced FAS 123" binomial model ("Valuation Models") to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Valuation Models (Note 32).

The fair value of share options granted to employees and other qualifying participants determined using the Valuation Models was approximately HKD668 million (equivalent to approximately RMB560 million) in 2016 (2015: HKD76 million (equivalent to approximately RMB60 million)).

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2016, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 88%-96% (2015: 85%-97%).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

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

If the Expected Retention Rate had been increased/decreased by 5% (2015: 5%), the amount of share-based compensation expenses would be increased/decreased by RMB230 million (2015: RMB154 million).

In addition, during the year ended 31 December 2016, the Group repurchased certain vested equity interests in a non-wholly owned subsidiary and exchanged certain unvested equity interests in a non-wholly owned subsidiary for the unvested awarded shares of the Company, which have been accounted for as shareholders' transactions with gain or loss reflected within equity.

(f) Income taxes

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

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

- Increase the income tax liabilities by RMB261 million (2015: RMB80 million) and the deferred tax liabilities by RMB258 million (2015: RMB183 million), if unfavourable; or
- Decrease the income tax liabilities by RMB261 million (2015: RMB80 million) and the deferred tax liabilities by RMB258 million (2015: RMB183 million), if favourable.

5 SEGMENT INFORMATION

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

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.

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 and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended 31 December 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.

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.

5 SEGMENT INFORMATION (Cont'd)

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 advertising**	**Others**	**Total**
	RMB'Million	**RMB'Million**	**RMB'Million**	**RMB'Million**
Segment revenues	**107,810**	**26,970**	**17,158**	**151,938**
Gross profit	**70,188**	**11,574**	**2,737**	**84,499**
Depreciation	**1,854**	**200**	**537**	**2,591**
Amortisation	**2,982**	**5,295**	**–**	**8,277**

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

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

5 SEGMENT INFORMATION (Cont'd)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. During the year ended 31 December 2016, the geographical information on the total revenues is as follows:

	2016 RMB'Million	2015 RMB'Million
Revenues		
– Mainland China	**144,371**	96,251
– Others	**7,567**	6,612
	151,938	102,863

The Group also conducts operations in the United States, Europe and other regions, and holds investments (including investments in associates, investments in redeemable instruments of associates, investments in joint ventures and available-for-sale financial assets) in various territories. The geographical information on the total assets is as follows:

	As at 31 December	
	2016 RMB'Million	2015 RMB'Million
Operating assets		
– Mainland China	**175,642**	150,608
– Others	**56,152**	44,925
Investments		
– Mainland China and Hong Kong	**108,715**	85,282
– North America	**22,310**	14,412
– Europe	**21,645**	2,462
– Asia excluding Mainland China and Hong Kong	**11,322**	9,036
– Others	**113**	93
	395,899	306,818

As at 31 December 2016, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB117,415 million (2015: RMB77,704 million) and RMB19,115 million (2015: RMB16,897 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 2016 and 2015.

6 INTEREST INCOME

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

7 OTHER GAINS, NET

	2016	2015
	RMB'Million	RMB'Million
Gains on disposals and deemed disposals of investee companies (Note (a))	**6,966**	3,813
Impairment provision for investee companies and intangible assets from acquisition (Note (b))	**(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)
	3,594	1,886

Note:

(a) The disposal and deemed disposal gains during the year ended 31 December 2016 mainly comprised the following:

(i) a gain of approximately RMB1,505 million arising from a deemed disposal of an associate as it became a subsidiary of the Group;

(ii) net gains of approximately RMB2,091 million arising from dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 20). These associates are principally engaged in Internet-related business;

(iii) a gain of approximately RMB1,130 million arising from the disposal of certain listed shares of a game company classified as available-for-sale financial assets; and

(iv) aggregate net gains of approximately RMB2,240 million on disposal, acquisition achieved in stages or partial disposal of various financial investments of the Group.

7 OTHER GAINS, NET (Cont'd)

Note: (Cont'd)

(b) The impairment provision for investee companies and intangible assets arising from acquisitions was mainly set up against the carrying amounts of the following items:

	2016 RMB'Million	2015 RMB'Million
Investments in associates (Note 20)	**2,117**	1,591
Investments in redeemable instruments of associates (Note 22)	**1,298**	47
Available-for-sale financial assets (Note 23)	**1,028**	586
Others	**366**	149
	4,809	2,373

8 EXPENSES BY NATURE

	2016 RMB'Million	2015 RMB'Million
Employee benefits expenses (Note (a) and Note 13)	**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 (Note (b) and Note 19)	**8,930**	3,476
Depreciation of property, plant and equipment (Note 16)	**3,699**	3,153
Auditor's remuneration		
– Audit services	**46**	35
– Audit-related services	**13**	2
– Non-audit services	**16**	13

8 EXPENSES BY NATURE (Cont'd)

Note:

(a) During the year ended 31 December 2016, the Group incurred expenses for the purpose of research and development 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 licences and licensed online contents.

9 FINANCE COSTS, NET

	2016	2015
	RMB'Million	RMB'Million
Interest and related expenses	**2,167**	1,510
Exchange (gains)/losses	**(212)**	108
	1,955	1,618

Interest and related expenses mainly arose from the borrowings and notes payable disclosed in Notes 33 and 34.

10 SHARE OF LOSSES OF ASSOCIATES AND JOINT VENTURES

	2016	2015
	RMB'Million	RMB'Million
Share of losses of associates (Note 20)	**2,549**	2,802
Share of profits of joint ventures	**(27)**	(9)
	2,522	2,793

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 2016 and 2015.

(ii) 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.

(iii) PRC corporate income tax

PRC corporate income tax 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 corporate income tax 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 corporate income tax 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 corporate income tax 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.

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

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

In addition, according to relevant tax circulars issued by the PRC tax authorities, certain subsidiaries of the 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 either from the first year of commercial operation or 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 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%.

(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 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 (Note 26)	**(598)**	172
	10,193	7,108

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

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 (2015: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2016 RMB'Million	2015 RMB'Million
Profit before income tax	51,640	36,216
Share of losses of associates and joint ventures	2,522	2,793
	54,162	39,009
Tax calculated at a tax rate of 25%	13,540	9,752
Effects of different tax rates applicable to different subsidiaries of the Group	(6,191)	(3,775)
Effects of tax holiday on assessable profits of certain subsidiaries	(496)	(508)
Income not subject to tax	(112)	(14)
Expenses not deductible for tax purposes	1,157	906
Withholding tax on earnings expected to be remitted by subsidiaries (Note 26)	1,700	266
Unrecognised deferred income tax assets	686	421
Others	(91)	60
Income tax expense	10,193	7,108

11 TAXATION (Cont'd)

(b) Value-added tax, business tax and related 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%	Sales value of goods sold and services fee income, offsetting by VAT on purchases
Business tax ("BT") (applicable for the period prior to May 2016)	5%	Services fee income
Construction fee for cultural undertakings	3%	Taxable advertising income
City construction tax	7%	Net VAT and BT payable amount
Educational surcharge	5%	Net VAT and BT payable amount

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.

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

12 EARNINGS PER SHARE (Cont'd)

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates, 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)	**41,095**	28,806
Weighted average number of ordinary shares in issue (million shares)	**9,376**	9,300
Adjustments for share options and awarded shares (million shares)	**118**	130
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	**9,494**	9,430
Diluted EPS (RMB per share)	**4.329**	3.055

13 EMPLOYEE BENEFITS EXPENSES

	2016 RMB'Million	2015 RMB'Million
Wages, salaries and bonuses	**15,626**	13,377
Contributions to pension plans (Note)	**1,426**	1,112
Share-based compensation expenses	**4,455**	2,841
Welfare, medical and other expenses (Note)	**1,841**	1,076
Training expenses	**85**	69
	23,433	18,475

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 2016 and 2015 are listed below:

	Percentage
Pension insurance	12.0-20.0%
Medical insurance	6.0-11.5%
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:

	2016	2015
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**227,989**	165,607
Contributions to pension plans	**826**	699
Share-based compensation expenses	**776,788**	535,733
	1,005,603	702,039

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	
	2016	2015
Emolument bands		
HKD800,000 – HKD15,000,000	**1**	2
HKD15,000,001 – HKD40,000,000	**1**	4
HKD40,000,001 – HKD65,000,000	**4**	4
HKD65,000,001 – HKD115,000,000	**4**	–
HKD165,000,001 – HKD215,000,000	**–**	1
HKD215,000,001 – HKD315,000,000	**2**	1

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2016 (2015: 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 2016 and 2015. The emoluments paid/payable to the remaining four (2015: four) individuals during the year were as follows:

	2016	2015
	RMB'000	RMB'000
Salaries and bonuses	**316,874**	195,792
Contributions to pension plans	**758**	503
Share-based compensation expenses	**608,757**	516,582
Allowances and benefits in kind	**33**	49
	926,422	712,926

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

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

The emoluments of the above four individuals (2015: four) fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
HKD183,000,001 – HKD183,500,000	**–**	2
HKD210,000,001 – HKD210,500,000	**–**	1
HKD231,000,001 – HKD231,500,000	**2**	–
HKD262,500,001 – HKD263,000,000	**1**	–
HKD274,000,001 – HKD274,500,000	**–**	1
HKD310,500,001 – HKD311,000,000	**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 2016:

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)	1,249	37,459	94	–	19	38,821
Lau Chi Ping Martin	1,249	26,832	–	93,875	61	122,017
Iain Ferguson Bruce	895	–	–	3,001	–	3,896
Ian Charles Stone	716	–	–	2,969	–	3,685
Li Dong Sheng	581	–	–	1,438	–	2,019
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun (Note (iv))	313	–	–	378	–	691
	5,003	64,291	94	101,661	80	171,129

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

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

During the year ended 31 December 2015:

Name of director	Fees	Salaries and bonuses	Contributions to pension plans	Share-based compensation expenses	Allowances and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note (i))	RMB'000
Ma Huateng (CEO)	–	32,725	84	–	19	32,828
Lau Chi Ping Martin	1,169	19,940	–	53,842	19	74,970
Iain Ferguson Bruce	838	–	–	2,778	–	3,616
Ian Charles Stone	670	–	–	2,717	–	3,387
Li Dong Sheng	545	–	–	1,267	–	1,812
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
	3,222	52,665	84	60,604	38	116,613

Note:

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

(ii) During the year ended 31 December 2016, 3,750,000 options were granted to one executive director of the Company (2015: nil), and 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).

(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 2016 and 2015.

(iv) Mr Yang Siu Shun was appointed as independent non-executive director with effect from 1 July 2016.

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 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, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors 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 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 annual general meeting to be held on 17 May 2017. 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 2016						
Cost	3,293	15,165	806	25	1,696	20,985
Accumulated depreciation	(699)	(9,160)	(432)	(16)	(694)	(11,001)
Currency translation differences	–	(46)	10	–	25	(11)
Net book amount	2,594	5,959	384	9	1,027	9,973
Year ended 31 December 2016						
Opening net book amount	2,594	5,959	384	9	1,027	9,973
Business combinations	–	54	6	–	33	93
Additions	1,372	5,877	120	10	245	7,624
Disposals	–	(20)	(8)	(1)	(22)	(51)
Depreciation	(133)	(3,150)	(134)	(5)	(277)	(3,699)
Impairment	–	(2)	–	–	–	(2)
Transfer to investment properties	(139)	–	–	–	(1)	(140)
Currency translation differences	–	50	9	–	43	102
Closing net book amount	3,694	8,768	377	13	1,048	13,900
At 31 December 2016						
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

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 2015						
Cost	2,574	12,261	673	25	961	16,494
Accumulated depreciation	(522)	(7,106)	(338)	(13)	(529)	(8,508)
Currency translation differences	–	(63)	4	–	(9)	(68)
Net book amount	2,052	5,092	339	12	423	7,918
Year ended 31 December 2015						
Opening net book amount	2,052	5,092	339	12	423	7,918
Business combinations	1	3	–	–	2	6
Additions	753	3,498	167	3	791	5,212
Disposals	(2)	(4)	(13)	(2)	(15)	(36)
Depreciation	(179)	(2,647)	(115)	(4)	(208)	(3,153)
Transfer to investment properties	(31)	–	–	–	–	(31)
Currency translation differences	–	17	6	–	34	57
Closing net book amount	2,594	5,959	384	9	1,027	9,973
At 31 December 2015						
Cost	3,293	15,165	806	25	1,696	20,985
Accumulated depreciation	(699)	(9,160)	(432)	(16)	(694)	(11,001)
Currency translation differences	–	(46)	10	–	25	(11)
Net book amount	2,594	5,959	384	9	1,027	9,973

During the year ended 31 December 2016, depreciation of RMB2,591 million (2015: RMB2,191 million), RMB132 million (2015: RMB118 million) and RMB976 million (2015: RMB844 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 CONSTRUCTION IN PROGRESS

	2016 RMB'Million	2015 RMB'Million
Opening net book amount	**4,248**	3,830
Additions	**2,559**	2,199
Transfer to property, plant and equipment	**(1,710)**	(1,783)
Transfer to investment properties	**(440)**	–
Currency translation differences	**17**	2
Closing net book amount	**4,674**	4,248

As at 31 December 2016, construction in progress mainly comprised new buildings and internet data centres under construction located in the PRC.

18 LAND USE RIGHTS

	2016 RMB'Million	2015 RMB'Million
Opening net book amount	**2,293**	751
Additions	**2,976**	1,581
Amortisation	**(95)**	(39)
Closing net book amount	**5,174**	2,293

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 39 to 50 years. During the year ended 31 December 2016, all of the amortisation was charged to general and administrative expenses.

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 2016							
Cost	7,306	2,087	2,196	8,598	754	836	21,777
Accumulated amortisation and impairment	(162)	(860)	(1,508)	(4,935)	(495)	(387)	(8,347)
Currency translation differences	11	(8)	9	2	–	(5)	9
Net book amount	7,155	1,219	697	3,665	259	444	13,439
Year ended 31 December 2016							
Opening net book amount	7,155	1,219	697	3,665	259	444	13,439
Business combinations (Notes 39 and 40)	15,896	28	1	794	–	2,204	18,923
Additions	–	569	1,331	11,074	125	148	13,247
Disposals	(45)	(38)	(9)	–	(4)	(1)	(97)
Amortisation	–	(261)	(396)	(7,772)	(139)	(362)	(8,930)
Impairment provision	(277)	–	–	–	(2)	(87)	(366)
Currency translation differences	198	18	11	15	3	6	251
Closing net book amount	22,927	1,535	1,635	7,776	242	2,352	36,467
At 31 December 2016							
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

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 2015							
Cost	6,558	1,671	1,711	2,933	586	704	14,163
Accumulated amortisation and impairment	(63)	(532)	(1,142)	(2,324)	(360)	(273)	(4,694)
Currency translation differences	(139)	(21)	(3)	–	–	(2)	(165)
Net book amount	6,356	1,118	566	609	226	429	9,304
Year ended 31 December 2015							
Opening net book amount	6,356	1,118	566	609	226	429	9,304
Business combinations	845	–	231	–	–	132	1,208
Additions	–	450	300	5,665	175	6	6,596
Disposals	(97)	(37)	(53)	–	(6)	–	(193)
Amortisation	–	(281)	(329)	(2,611)	(136)	(119)	(3,476)
Impairment provision	(99)	(44)	(30)	–	–	(1)	(174)
Currency translation differences	150	13	12	2	–	(3)	174
Closing net book amount	7,155	1,219	697	3,665	259	444	13,439
At 31 December 2015							
Cost	7,306	2,087	2,196	8,598	754	836	21,777
Accumulated amortisation and impairment	(162)	(860)	(1,508)	(4,935)	(495)	(387)	(8,347)
Currency translation differences	11	(8)	9	2	–	(5)	9
Net book amount	7,155	1,219	697	3,665	259	444	13,439

19 INTANGIBLE ASSETS (Cont'd)

During the year ended 31 December 2016, amortisation of RMB8,277 million (2015: RMB3,068 million) and RMB653 million (2015: RMB408 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2016, goodwill and other identifiable intangible assets of certain subsidiaries have been impaired to the extent of RMB366 million (Note 7) as a result of significant decline in revenues and unsatisfactory operating performance of these subsidiaries.

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs and most of the goodwill is related to the VAS. The recoverable amount of a CGU is the higher of its value-in-use and fair value less costs to sell. The key assumptions used for the calculations of the recoverable amounts of major CGUs are as follows:

For online game business, management calculates the fair value less costs to sell based on ratios of EV (enterprise value) divided by EBITDA (earnings before interest, tax, depreciation and amortisation) of several comparable public companies multiplied by the EBITDA (ranging within 10-18x) of the related CGU and discounted for the lack of marketability at a range of 10% to 20%. The comparable public companies are chosen based on factors such as industry similarity, company size, profitability and financial risks.

For online literature business and online music business, management calculates value-in-use based on discounted cash flows calculations. The discounted cash flows calculations use cash flow projections developed based on financial budgets approved by management of the Group covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 5%. Pre-tax discount rates of 20% to 25% adopted for the online music business and the online literature business, respectively, which reflects market assessments of time value and the specific risks relating to the industry that the Group operates. The financial projections were determined by the management based on past performance and its expectation for market development.

20 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**38,516**	36,040
– Unlisted entities	**31,526**	24,131
	70,042	60,171

	2016	2015
	RMB'Million	RMB'Million
At beginning of the year	**60,171**	51,131
Additions (Note (i), (ii) and (iii))	**9,900**	12,705
Deemed disposal gains (Note 7(a)(ii))	**2,091**	1,931
Share of losses of associates (Note 10)	**(2,549)**	(2,802)
Share of other comprehensive income of associates	**863**	329
Dividends from associates	**(151)**	(237)
Disposals and transfers (Note (iv))	**(1,706)**	(4,183)
Impairment provision (Note (v))	**(2,117)**	(1,591)
Currency translation differences	**3,540**	2,888
At end of the year	**70,042**	60,171

Note:

(i) In August 2016, the Group acquired from the market additional listed American Depositary Shares of an associate, JD.com, Inc. ("JD.com"), totalling approximately USD200 million (equivalent to approximately RMB1,328 million).

(ii) In August 2016, the Group subscribed for new shares of WeBank Co., Ltd., an associate and a privately-owned commercial bank in China, in proportion to its then shareholding percentage together with the other investors, at a cash consideration of RMB1,166 million.

(iii) The Group also acquired certain other associates and made additional investments in existing associates, with an aggregate amount of RMB7,406 million during the year ended 31 December 2016. These associates are principally engaged in online game business and other Internet-related businesses.

(iv) Disposals and transfers mainly comprised derecognition of our earlier minority investment in China Music Corporation ("CMC") from an associate as detailed in Note 39, and other disposals during the year ended 31 December 2016.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note: (Cont'd)

(v) 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. Within the amount, RMB775 million was provided for an associate, based on the results of impairment assessment performed on the carrying amount against its respective recoverable amount. The impairment loss mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

(vi) 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.

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

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Losses from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income RMB'Million	Fair value of listed companies as at 31 December RMB'Million
2016							
Listed entities	**71,894**	**33,378**	**52,576**	**(1,141)**	**484**	**(657)**	**68,565**
Non-listed entities	**56,371**	**24,846**	**11,455**	**(1,408)**	**379**	**(1,029)**	
	128,265	**58,224**	**64,031**	**(2,549)**	**863**	**(1,686)**	
2015							
Listed entities	55,557	19,517	36,149	(1,764)	323	(1,441)	88,090
Non-listed entities	31,566	7,435	6,215	(1,038)	6	(1,032)	
	87,123	26,952	42,364	(2,802)	329	(2,473)	

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Management has assessed the level of influence that the Group exercises on certain associates, with a total carrying amount of RMB37,131 million as at 31 December 2016 (2015: RMB31,207 million), and determined that it has significant influence thereon through the board representation or other arrangements made, even though the respective shareholding is below 20%. Consequently, these investments have been classified as associates.

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
JD.com	Cayman Islands	18.22%	Online direct sales and online marketplace businesses/the PRC

Set out below are the summarised financial information of JD.com extracted from its financial statements prepared under generally accepted accounting principles in the United States.

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Summarised consolidated balance sheet		
Current assets	**106,932**	58,468
Non-current assets	**53,891**	26,698
Current liabilities	**104,843**	49,028
Non-current liabilities	**14,665**	5,460
Redeemable non-controlling interests	**7,057**	–
Shareholders' equity	**34,258**	30,678

20 INVESTMENTS IN ASSOCIATES (Cont'd)

	Year ended 31 December	
	2016	2015
	RMB'Million	RMB'Million
Summarised consolidated statements of operations and comprehensive loss		
Net Revenues	**260,186**	181,287
Loss from operations	**(2,081)**	(6,459)
Loss before tax	**(3,294)**	(9,402)
Net loss	**(3,474)**	(9,388)
Other comprehensive income	**1,187**	1,159
Total comprehensive loss	**(2,287)**	(8,229)

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

Transactions with associates

(i) Transactions related to online services

During the year ended 31 December 2016, the Group had undertaken transactions relating provision of online traffic, online advertising and other online services to certain associates (including JD.com), 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 2016 and 2015 were considered to be insignificant.

(ii) Other transactions

The Group placed certain deposits in the form of wealth management products with an associate in the ordinary course of business. During the year ended and as at 31 December 2016, the balances of these deposits and interest income thereon were considered to be insignificant.

21 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2016, the financial instruments of the Group is analysed as follows:

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Financial assets classified as loan and receivables:		
Investments in redeemable instruments of associates (Note 22)	**9,627**	6,230
Accounts receivable (Note 28)	**10,152**	7,061
Deposits and other receivables (Note 24)	**9,267**	7,709
Term deposits (Note 27)	**55,735**	41,005
Restricted cash (Note 29(b))	**750**	54,731
Cash and cash equivalents (Note 29(a))	**71,902**	43,438
	157,433	160,174
Financial liabilities at amortised cost:		
Notes payable (Note 34)	**39,670**	40,978
Long-term payables (Note 35)	**4,935**	3,626
Accounts payable (Note 37)	**27,413**	15,700
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 38)	**10,491**	61,627
Borrowings (Note 33)	**69,827**	24,351
	152,336	146,282

21 FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

As at 31 December 2016, financial assets classified as available-for-sale were RMB83,806 million (2015: RMB44,339 million) (Note 23).

As at 31 December 2016, financial assets and liabilities at fair value include other financial assets (Note 25) and other financial liabilities of RMB3,409 million (2015: RMB1,198 million) and RMB2,576 million (2015: RMB588 million), respectively.

22 INVESTMENTS IN REDEEMABLE INSTRUMENTS OF ASSOCIATES

As at 31 December 2016, the Group's investments in redeemable instruments of associates of RMB9,627 million (2015: RMB6,230 million) were stated at amortised cost. These investments mainly comprised investee companies that are principally engaged in online community services, online financing business, online games development and other Internet-related businesses. The redemption prices of the relevant instruments are agreed at not less than their respective original subscription prices.

During the year ended 31 December 2016, the Group made aggregate investments in redeemable instruments of associates, including certain additional investments in existing investees of the Group, of RMB3,628 million. These investments mainly invested in 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.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Equity investments in listed entities		
– Mainland China	**3,909**	6,198
– Hong Kong	**615**	179
– United Kingdom	**2,066**	2,376
– United States of America	**13,552**	553
– Sweden	**204**	–
– South Korea	**131**	–
– Japan	**–**	129
	20,477	9,435
Equity investments in unlisted entities	**62,580**	34,879
Others	**749**	25
	83,806	44,339

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 (Note (i), (ii) and (iii))	**37,319**	18,039
Disposals and transfers	**(2,755)**	(932)
Changes in fair value (Note (iv))	**2,567**	13,045
Impairment provision (Note (v))	**(1,028)**	(586)
Currency translation differences	**3,364**	1,496
At end of the year	**83,806**	44,339

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

Note:

(i) On 21 June 2016, a limited liability company and its subsidiaries established by the Group (the "Consortium") agreed to acquire a majority equity interest in Supercell Oy ("Supercell") ("Supercell Acquisition"). The acquisition consideration paid by the Consortium was funded by the Group, which subscribed for certain voting and non-voting redeemable and convertible shares and other instruments issued by the Consortium, certain co-investors, which subscribed for ordinary shares and preference shares issued by the Consortium, and bank borrowings obtained by the Consortium ("Supercell Financing").

The Supercell Financing was completed upon finalisation of bank facilities agreements and investments made by the Group and co-investors in October 2016. According to the investment agreements entered into by the Group and co-investors in respect of their investment in 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 Supercell Acquisition was completed after the completion of Supercell Financing and the Consortium acquired 76.9% interest in Supercell.

The Group's investment in the 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 (Note 25).

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 acquired certain interests or made additional investments of approximately RMB7,277 million in listed entities in the United States, PRC, Sweden and South Korea. Among which, approximately USD737 million (equivalent to approximately RMB5,052 million) was invested by the Group to acquire approximately 2.2% of common stocks of Tesla, Inc. ("Tesla"), a listed company in US which is principally engaged in the development and sales of electric vehicles, sustainable energy generation and storage equipment.

Subsequently, the Group acquired additional common stocks of Tesla and its aggregate equity interest in Tesla amounted to approximately 5% of the total issued common stocks of Tesla as of March 2017.

(iii) During the year ended 31 December 2016, the Group acquired certain interests or made additional investments of approximately RMB11,057 million in unlisted entities mainly operated in the PRC and the United States. These companies are engaged in technology, online-to-offline and other Internet-related services.

(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 during the year ended 31 December 2016, with reference to their assessed fair values as at 31 December 2016.

(vi) As at 31 December 2016, the balance of the Group's available-for-sale financial assets comprise of a large number of individual investments, among which the investment in Supercell represented the single largest investment in available-for-sale financial assets and was the only significant investment of the Group which triggered the disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time when the Group made such investment.

24 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayment for licensed online contents and game licences	**3,942**	857
Prepayments for land use rights	**–**	2,242
Running royalty fees for online games	**685**	357
Loan to investees and investees' shareholders (Note)	**1,113**	999
Others	**1,623**	1,025
	7,363	5,480
Included in current assets:		
Running royalty fees for online games	**2,506**	2,252
Prepaid expenses	**4,659**	3,275
Loan to investees and investees' shareholders (Note)	**1,679**	2,507
Interest receivables	**2,293**	1,392
Refundable value-added tax	**260**	254
Rental deposits and other deposits	**199**	167
Others	**2,522**	1,550
	14,118	11,397
	21,481	16,877

Note:

As at 31 December 2016, the amounts represented loan to investees and investees' shareholders. These balances are repayable within a period of two to nine years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 8.0% per annum (2015: not higher than 10.0% per annum).

As at 31 December 2016, 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. Their recoverability was assessed with reference to the credit status of the counterparties and credit history.

25 OTHER FINANCIAL ASSETS

As at 31 December 2016, the Group's non-current other financial assets comprised the embedded derivatives bifurcated from the host component (Note 23(i)) and interest rate swap contracts of RMB1,176 million and RMB584 million, respectively.

As at 31 December 2016, the Group had several outstanding interest rate swap contracts to exchange floating interest rates into fixed interest rates with the aggregate notional principal amount of USD4,001 million (equivalent to approximately RMB27,755 million) (2015: Nil). These interest rate swap contracts were qualified as hedging accounting.

As at 31 December 2016, the Group's current other financial assets represent call option rights held by the Group which entitle it to acquire additional equity interests in certain investee companies of the Group.

Other financial assets were measured at their fair values.

26 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 2016 and 2015.

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**3,272**	443
– to be recovered within 12 months	**3,761**	314
	7,033	757
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(4,777)**	(2,713)
– to be recovered within 12 months	**(376)**	(955)
	(5,153)	(3,668)

26 DEFERRED INCOME TAXES (Cont'd)

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

	2016 **RMB'Million**	2015 RMB'Million
At beginning of the year	**(2,911)**	(2,620)
Credit/(charge) to consolidated income statement (Note 11)	**598**	(172)
Withholding tax paid relating to remittance of dividends	**300**	326
Credit/(charge) to consolidated statement of changes in equity	**362**	(459)
Disposal of a subsidiary	**–**	5
Business combinations	**(381)**	2
Other additions	**3,851**	–
Currency translation differences	**61**	7
At end of the year	**1,880**	(2,911)

26 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 2016	**243**	**209**	**–**	**305**	**757**
Business combinations	**–**	**–**	**–**	**4**	**4**
(Charge)/credit to consolidated income statement	**399**	**(27)**	**1,604**	**367**	**2,343**
Other additions	**–**	**–**	**2,057**	**1,794**	**3,851**
Currency translation differences	**–**	**7**	**–**	**71**	**78**
At 31 December 2016	**642**	**189**	**3,661**	**2,541**	**7,033**
At 1 January 2015	17	209	–	96	322
(Charge)/credit to consolidated income statement	226	(11)	–	209	424
Currency translation differences	–	11	–	–	11
At 31 December 2015	243	209	–	305	757

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 2016, the Group did not recognise deferred income tax assets of RMB957 million (2015: RMB1,017 million) in respect of cumulative tax losses amounting to RMB4,064 million (2015: RMB4,125 million). These tax losses will expire from 2017 to 2021.

26 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 available-for-sale financial assets RMB'Million	Deemed disposals of investees RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2016	**(314)**	**(1,975)**	**(631)**	**(198)**	**(550)**	**(3,668)**
Business combinations	**(385)**	**–**	**–**	**–**	**–**	**(385)**
Credit/(charge) to consolidated income statement	**94**	**(1,700)**	**–**	**(227)**	**88**	**(1,745)**
Withholding tax paid in relation to the remittance of dividends	**–**	**300**	**–**	**–**	**–**	**300**
Credit to consolidated statement of changes in equity	**–**	**–**	**362**	**–**	**–**	**362**
Currency translation differences	**(2)**	**(16)**	**–**	**–**	**1**	**(17)**
At 31 December 2016	**(607)**	**(3,391)**	**(269)**	**(425)**	**(461)**	**(5,153)**
At 1 January 2015	(360)	(2,033)	(172)	–	(377)	(2,942)
Business combinations	2	–	–	–	–	2
Credit/(charge) to consolidated income statement	41	(266)	–	(198)	(173)	(596)
Disposal of a subsidiary	5	–	–	–	–	5
Withholding tax paid in relation to the remittance of dividends	–	326	–	–	–	326
Charge to consolidated statement of changes in equity	–	–	(459)	–	–	(459)
Currency translation differences	(2)	(2)	–	–	–	(4)
At 31 December 2015	(314)	(1,975)	(631)	(198)	(550)	(3,668)

26 DEFERRED INCOME TAXES (Cont'd)

As at 31 December 2016, the Group recognised the relevant deferred income tax liabilities of RMB3,391 million (2015: RMB1,975 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 RMB41,220 million (2015: RMB37,344 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.

27 TERM DEPOSITS

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

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**5,409**	3,611
USD term deposits	**–**	58
Other currencies	**6**	5
	5,415	3,674
Included in current assets:		
RMB term deposits	**46,118**	36,569
USD term deposits	**2,708**	762
Other currencies	**1,494**	–
	50,320	37,331
	55,735	41,005

The effective interest rate for the term deposits of the Group with initial terms of over three months during the year ended 31 December 2016 was 3.41% (2015: 4.00%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2016, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

28 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	**1,579**	438
	10,152	7,061

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	
	2016	2015
	RMB'Million	RMB'Million
Online advertising customers	**4,679**	3,340
Third party platform providers	**2,252**	1,500
Telecommunications operators	**928**	815
Others	**2,293**	1,406
	10,152	7,061

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.

As at 31 December 2016, insignificant amounts of accounts receivable were past due and related impairment provision was recognised after assessment on the financial condition and credit quality with reference to the past history.

As at 31 December 2016, the carrying amounts of the accounts receivable approximated their fair values.

29 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Bank balances and cash	**39,804**	19,845
Term deposits and highly liquid investments with initial terms within three months	**32,098**	23,593
	71,902	43,438

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2016 was 2.47% (2015: 3.08%).

Approximately RMB28,154 million (2015: RMB22,150 million) and RMB1,856 million (2015: RMB6,995 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB, which had been placed with banks in Mainland China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2016, restricted deposits held at bank of RMB750 million (2015: RMB54,731 million) were mainly denominated in RMB.

As at 31 December 2015, the cash amount deposited with banks under users' entrustment (the "Entrustment Value") had been presented and recognised as "Restricted cash" under current assets with corresponding liability in equivalent amount as "Other payables and accruals" (Note 38) 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 has no longer recognised the Entrustment Value since 2 July 2016, being the effective date of amendments to the users' agreements. The Entrustment Value amounted to approximately RMB125 billion on 2 July 2016.

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

As at 31 December 2016 and 2015, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	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 2016	**9,403,923,992**	**–**	**12,167**	**(1,817)**	**10,350**
Employee share option schemes:					
– value of employee services	–	–	311	–	311
– shares issued (Note (a))	8,718,788	–	225	–	225
Employee share award schemes:					
– value of employee services	–	–	3,453	–	3,453
– shares withheld for share award schemes (Note (b))	–	–	–	(1,936)	(1,936)
– shares allotted for share award schemes (Note (c))	64,440,700	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(617)	617	–
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note 31(d))	–	–	1,785	–	1,785
At 31 December 2016	**9,477,083,480**	**–**	**17,324**	**(3,136)**	**14,188**

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

	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 2015	9,370,678,830	–	5,131	(1,309)	3,822
Employee share option schemes:					
– value of employee services	–	–	165	–	165
– shares issued (Note (a))	11,488,432	–	169	–	169
Employee share award schemes:					
– value of employee services	–	–	2,058	–	2,058
– shares withheld for share award schemes (Note (b))	–	–	–	(652)	(652)
– shares allotted for share award schemes (Note (c))	21,756,730	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(144)	144	–
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	4,788	–	4,788
At 31 December 2015	9,403,923,992	–	12,167	(1,817)	10,350

As at 31 December 2016, the total number of issued ordinary shares of the Company included 82,075,537 shares (2015: 58,379,035 shares) held under the Share Award Schemes.

Note:

(a) During the year ended 31 December 2016, 8,718,788 Post-IPO options (2015: 11,488,432 Post-IPO options) with exercise prices ranging from HKD18.06 to HKD148.90 (2015: HKD8.53 to HKD124.30) were exercised.

(b) During the year ended 31 December 2016, the Share Scheme Trust withheld 13,242,861 ordinary shares (2015: 5,747,513 ordinary shares) of the Company for an amount of approximately HKD2,267 million (equivalent to approximately RMB1,936 million) (2015: HKD800 million (equivalent to approximately RMB652 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2016, the Company allotted 64,440,700 ordinary shares (2015: 21,756,730 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 2016, the Share Scheme Trust transferred 53,989,266 ordinary shares of the Company (2015: 57,811,262 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 32(b)).

31 OTHER RESERVES

	Capital reserve RMB'Million (Note (a))	Available-for-sale financial assets RMB'Million	Investments in associates RMB'Million	Currency translation differences RMB'Million	PRC statutory reserve RMB'Million (Note (b))	Share-based compensation reserve RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2016	(11,338)	15,106	458	1,607	1,089	2,015	736	9,673
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	57	–	57
– Employee share award schemes	–	–	–	–	–	394	–	394
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	897	–	897
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note (d))	(2,523)	–	–	–	–	–	–	(2,523)
Transfer of equity interests of subsidiaries to non-controlling interests	(927)	–	–	–	–	–	–	(927)
Write-back of financial liabilities upon termination of the put option granted to non-controlling interests	516	–	–	–	–	–	–	516
Partial disposal of equity interests in subsidiaries and businesses	7,842	–	–	–	–	–	–	7,842
Profit appropriations to PRC statutory reserves	–	–	–	–	665	–	–	665
Net gains from changes in fair value of available-for-sale financial assets	–	2,929	–	–	–	–	–	2,929
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	(1,176)	–	–	–	–	–	(1,176)
Share of other comprehensive income of associates	–	–	863	–	–	–	–	863
Currency translation differences	–	–	–	4,127	–	–	–	4,127
Other fair value gains, net	–	–	–	–	–	–	356	356
Balance at 31 December 2016	(6,430)	16,859	1,321	5,734	1,754	3,363	1,092	23,693

31 OTHER RESERVES (Cont'd)

	Capital reserve RMB'Million (Note (a))	Available-for-sale financial assets RMB'Million	Investments in associates RMB'Million	Currency translation differences RMB'Million	PRC statutory reserve RMB'Million (Note (b))	Share-based compensation reserve RMB'Million (Note (c))	Others RMB'Million	Total RMB'Million
Balance at 1 January 2015	(1,611)	2,531	129	(363)	873	570	–	2,129
Value of employee services:								
– Employee share option schemes	–	–	–	–	–	190	–	190
– Employee share award schemes	–	–	–	–	–	273	–	273
Tax benefit from share-based payments of a subsidiary	–	–	–	–	–	982	–	982
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note (d))	(8,160)	–	–	–	–	–	–	(8,160)
Transfer of equity interests of subsidiaries to non-controlling interests	(372)	–	–	–	–	–	–	(372)
Recognition of financial liabilities in respect of the put options granted to non-controlling interests	(1,195)	–	–	–	–	–	–	(1,195)
Profit appropriations to PRC statutory reserves	–	–	–	–	216	–	–	216
Net gains from changes in fair value of available-for-sale financial assets	–	12,586	–	–	–	–	–	12,586
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	(11)	–	–	–	–	–	(11)
Share of other comprehensive income of associates	–	–	329	–	–	–	–	329
Currency translation differences	–	–	–	1,970	–	–	–	1,970
Other fair value gains, net	–	–	–	–	–	–	736	736
Balance at 31 December 2015	(11,338)	15,106	458	1,607	1,089	2,015	736	9,673

31 OTHER RESERVES (Cont'd)

Note:

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

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

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve 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 32(d)).

(d) During the year, the Group has acquired non-controlling interests in certain non-wholly owned subsidiaries and the aggregate net excess of considerations over the carrying amounts of acquired non-controlling interests of RMB2,523 million (2015: RMB8,160 million) was recognised directly in equity. Out of which includes an agreement to entire non-controlling interests (including the outstanding equity-settled and cash-settled share options and restricted shares under the relevant employees incentive plans) in a non-wholly owned subsidiary entered into by the Group in 2015. The considerations were settled in cash and awarded shares of the Company. This acquisition was partially completed in 2015 and 2016.

32 SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted four share option schemes, namely, the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and 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 their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The exercise price must be in compliance with the requirement under The Rules Governing the Listing of Securities on the Stock Exchange. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 7-year or 10-year period after the date of grant of option.

32 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		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**	**(74,151)**	**–**	**–**	**(74,151)**
At 31 December 2016	**HKD120.95**	**31,247,436**	**HKD31.70**	**2,500,000**	**33,747,436**
Exercisable as at 31 December 2016	**HKD86.69**	**9,617,778**	**–**	**–**	**9,617,778**
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	(717,138)	–	–	(717,138)
At 31 December 2015	HKD80.59	25,697,305	HKD31.70	5,000,000	30,697,305
Exercisable as at 31 December 2015	HKD56.85	8,844,117	HKD31.70	1,250,000	10,094,117

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

As a result of the options exercised during the year ended 31 December 2016, 8,718,788 ordinary shares (2015: 11,488,432 ordinary shares) were issued by the Company (Note 30). The weighted average price of the shares at the time these options were exercised was HKD173.65 per share (equivalent to approximately RMB148.82 per share) (2015: HKD142.75 per share (equivalent to approximately RMB114.57 per share)).

32 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 2016 and 2015 are as follows:

		Number of share options	
		31 December	31 December
Expiry Date	**Range of exercise price**	**2016**	2015
7 years commencing from the	HKD18.06	–	2,851,000
date of grant of options	HKD26.08-HKD49.76	**5,005,325**	8,094,967
(Post-IPO Option Scheme II)	HKD112.30-HKD174.86	**26,242,111**	14,751,338
		31,247,436	25,697,305
10 years commencing from the			
date of grant of options			
(Post-IPO Option Scheme III)	HKD31.70	**2,500,000**	5,000,000
		33,747,436	30,697,305

The outstanding share options as of 31 December 2016 were divided into three to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

32 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Fair value of options

The directors of the Company have used the Valuation Models 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 2016 was HKD56.41 per share (equivalent to approximately RMB47.33 per share) (2015: HKD51.92 per share (equivalent to approximately RMB41.01 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 Valuation Models, which are summarised as below.

	2016	2015
Weighted average share price at the grant date	**HKD160.04**	HKD149.22
Risk free rate	**0.69%-1.08%**	0.36%-1.54%
Dividend yield	**0.32%-0.33%**	0.36%
Expected volatility (Note)	**35.00%**	40.00%-41.00%

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.

32 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes

The Company has adopted two share award schemes (the "Share Award Schemes"), both of which are administered by an independent trustee appointed by the Group (the "Trustee") 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	**(3,803,259)**
Vested and transferred	**(53,989,266)**
At 31 December 2016	**86,365,812**
Vested but not transferred as at 31 December 2016	**277,291**
At 1 January 2015	82,035,522
Granted	74,308,983
Lapsed	(6,746,336)
Vested and transferred	(57,811,262)
At 31 December 2015	91,786,907
Vested but not transferred as at 31 December 2015	8,574,117

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).

32 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes (Cont'd)

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

The weighted average fair value of awarded shares granted during the year ended 31 December 2016 was HKD165.25 per share (equivalent to approximately RMB141.89 per share) (2015: HKD147.94 per share (equivalent to approximately RMB120.86 per share)).

The outstanding awarded shares as of 31 December 2016 were divided into two 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 four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee incentive schemes

For aligning the interests of key employees with the Group, the Group established five employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015 and 2016 (the "EIS") respectively. According to the term of the EISs, the Board may, at its absolute discretion, select any employee 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 up to four to seven years. Wholly-owned subsidiaries of the Company act 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 2016 and 2015 were insignificant to the Group.

32 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 board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries 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 2016, the Expected Retention Rate from the Group's wholly-owned subsidiaries was assessed to be 88%-96% (2015: 85%-97%).

33 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 (Note (a))	**57,549**	12,922
Included in current liabilities:		
USD bank borrowings, unsecured (Note (b))	**12,139**	10,715
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**139**	714
	12,278	11,429
	69,827	24,351

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.

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

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Within 1 year	**139**	714
Between 1 and 2 years	**5,376**	6,623
Between 2 and 5 years	**48,947**	6,299
More than 5 years	**3,226**	–
	57,688	13,636

(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.

(c) As at 31 December 2016, the carrying amounts of borrowings approximated their fair values.

34 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	**3,743**	3,509
	36,204	37,092
Included in current liabilities:		
Current portion of long-term USD notes payable	**3,466**	3,886
	39,670	40,978

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.

The notes payable were repayable as follows:

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Within 1 year	**3,466**	3,886
Between 1 and 2 years	**5,043**	3,236
Between 2 and 5 years	**24,281**	27,421
More than 5 years	**6,880**	6,435
	39,670	40,978

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

In December 2016, the notes payable with an aggregate principal amount of USD600 million which were issued in December 2011 reached their maturity and they were fully repaid by the Group.

As at 31 December 2016, the fair value of the notes payable amounted to RMB40,379 million (2015: RMB41,372 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.

35 LONG-TERM PAYABLES

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Payables to the licensed online contents and running royalty fee for online games	**3,859**	2,361
Present value of liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**203**	487
Others	**873**	778
	4,935	3,626

36 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain VAS in the form of pre-paid tokens or cards, virtual items and subscription, for which the related services had not been rendered as at 31 December 2016. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values at the inception date. As at 31 December 2016, deferred revenue also included fair value of internet traffic and other support to be offered to JD.com and other investee companies in the future periods measured at their respective inception dates, as mentioned in Note 20.

37 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	**2,363**	2,389
	27,413	15,700

38 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**8,965**	7,719
Selling and marketing expense accruals	**2,530**	1,628
Prepayments received from customers and others	**1,417**	265
General and administrative expenses accruals	**1,160**	966
Purchase of land use rights and construction related costs	**857**	1,459
Purchase consideration payables for investee companies	**394**	351
Interests payable	**403**	386
Liabilities in relation to the put options granted to non-controlling shareholders of subsidiaries	**102**	314
Deposits received from customers (Note 29(b))	**–**	54,108
Convertible bonds of a subsidiary	**–**	588
Others	**5,045**	2,415
	20,873	70,199

39 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 then prevailing 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 in China. 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.

39 CMC INTEGRATION (Cont'd)

	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	2,483
	10,292
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	(385)
Total identifiable net assets	2,221
Non-controlling interests	(7,707)
Goodwill	15,778
	10,292

39 CMC INTEGRATION (Cont'd)

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 (Note 7).

40 OTHER BUSINESS COMBINATIONS

During the year ended 31 December 2016, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions was RMB314 million, fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were RMB291 million, RMB95 million and RMB118 million, respectively.

The acquisition related costs of the business combinations were not significant and had been charged to general and administrative expenses during the year ended 31 December 2016.

The revenue and the results contributed by these acquired entities for the period since respective acquisition dates 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 2016.

41 CONSOLIDATED CASH FLOW STATEMENT

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

	2016 RMB'Million	2015 RMB'Million
Profit for the year	41,447	29,108
Adjustments for:		
Income tax expense	10,193	7,108
Gains on disposals and deemed disposals of investees and businesses	(6,966)	(3,813)
Dividend income	(563)	(272)
Depreciation of property, plant and equipment and investment properties	3,716	3,159
Amortisation of intangible assets and land use right	9,025	3,515
Net losses on disposals of land used rights, intangible assets, property, plant and equipment and construction in progress	60	43
Interest income	(2,619)	(2,327)
Equity-settled share-based compensation expenses	4,313	2,756
Share of losses of associates and joint ventures	2,522	2,793
Impairment provision for available-for-sale financial assets, associates, investments in redeemable instruments of associates and joint ventures	4,443	2,225
Fair value gains on other financial assets	(658)	(462)
Impairment of intangible assets	366	148
Exchange (gains)/losses	(212)	108
Changes in working capital:		
Accounts receivable	(2,930)	(2,469)
Inventories	(38)	(17)
Prepayments, deposits and other receivables	(4,108)	(5,081)
Accounts payable	7,060	5,969
Other payables and accruals	2,506	3,654
Other tax liabilities	49	(106)
Deferred revenue	8,428	4,439
Cash generated from operating activities	76,034	50,478

(b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 31(d) and CMC integration described in Note 39, there were no material non-cash transactions during the year ended 31 December 2016.

42 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2016 are analysed as follows:

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Contracted:		
Construction/Purchase of buildings and purchase of land use rights	**1,911**	2,239
Purchase of other property, plant and equipment	**44**	631
Capital investment in investees	**2,866**	2,249
	4,821	5,119

(b) Operating lease commitments

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

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**302**	428
Later than one year and not later than five years	**632**	827
Later than five years	**1,156**	1,198
	2,090	2,453

42 COMMITMENTS (Cont'd)

(c) Other commitments

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

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**3,404**	2,090
Later than one year and not later than five years	**4,081**	3,363
Later than five years	**1,540**	540
	9,025	5,993

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 24 (Loan to investees and investees' shareholders) and Note 32 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the year ended 31 December 2016, and no other material balances with related parties as at 31 December 2016.

44 SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2016 to the approval date of these financial statements by the Board of Directors on 22 March 2017.

45 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2016	2015
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**42**	38
Investments in subsidiaries	**54,097**	45,647
Investments in associates	**1,346**	1,278
Prepayments, deposits and other receivables	**464**	426
Contribution to Share Scheme Trust	**67**	48
	56,016	47,437
Current assets		
Amounts due from subsidiaries	**10,108**	10,056
Prepayments, deposits and other receivables	**15**	131
Cash and cash equivalents	**1,629**	99
	11,752	10,286
Total assets	**67,768**	57,723

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

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

	As at 31 December	
	2016	2015
	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 (Note (b))	**126**	(448)
Retained earnings (Note (b))	**4,031**	472
Total equity	**18,345**	10,374
LIABILITIES		
Non-current liabilities		
Notes payable	**36,204**	37,092
Other financial liabilities	**1,925**	–
	38,129	37,092
Current liabilities		
Amounts due to subsidiaries	**7,465**	6,024
Other payables and accruals	**363**	347
Notes payable	**3,466**	3,886
	11,294	10,257
Total liabilities	**49,423**	47,349
Total equity and liabilities	**67,768**	57,723

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 2016	**472**	**(448)**
Profit for the year	**7,258**	**–**
Dividends paid relating to 2015	**(3,699)**	**–**
Currency translation differences	**–**	**574**
At 31 December 2016	**4,031**	**126**
At 1 January 2015	4,206	(377)
Losses for the year	(1,094)	–
Dividends paid relating to 2014	(2,640)	–
Currency translation differences	–	(71)
At 31 December 2015	472	(448)

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2016:

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	RMB216,500,000	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
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares 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 Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of Internet information services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD170,000,000	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 Internet information services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB120,000,000	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	USD1,239	100%	Development and operation of online games in the United States
China Reading Limited	Established in the Cayman Islands, limited liability company	USD66,683	64.35%	Provision of online literature services in the PRC
Tencent Music Entertainment Group	Established in the Cayman Islands, limited liability company	USD211,137	62.45%	Provision of online music entertainment services in the PRC

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 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.

46 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Note: (Cont'd)

(d) Significant restrictions

As at 31 December 2016, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB86,250 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 32(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 30(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 2016, the Company contributed approximately RMB1,936 million (2015: RMB652 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 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
"2017 AGM"	the annual general meeting of the Company to be held on 17 May 2017 or any adjournment thereof
"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
"AR"	augmented reality
"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
"CG Code"	the corporate governance code as set out in Appendix 14 to the Listing Rules
"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
"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
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Eligible Person(s)"	any person(s) eligible to participate in the respective Share Award Schemes
"EPS"	earnings per share
"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

Term	Definition
“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
“IAS”	International Accounting Standards
“IC”	internal control department of the Company
“IFRS”	International Financial Reporting Standards
“IM”	Instant messaging
“Investment Committee”	the investment committee of the Company
“IP”	intellectual property
“IPO”	initial public offering
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MIH TC”	MIH TC Holdings Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NASDAQ”	NASDAQ Global Select Market
“Nomination Committee”	the nomination committee of the Company
“O2O”	online-to-offline, or offline-to-online

Definition

Term	Definition
"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
"Reference Date"	in respect to a Selected Participant, the date of final approval by the Board of the total number of shares of the Company to be awarded to the relevant Selected Participant on a single occasion pursuant to the 2007 Share Award Scheme
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	the lawful currency of the PRC
"RPG"	role playing game
"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
"Share Award Schemes"	the 2007 Share Award Scheme and the 2013 Share Award Scheme

Term	Definition
"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
"Shiji Kaixuan"	Shenzhen Shiji Kaixuan Technology Company Limited
"SKT CFC"	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
"SKT Co-operation Committee"	the co-operation committee established under the SKT CFC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supercell"	Supercell Oy, a private company incorporated in Finland
"TCS CFC"	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
"TCS Co-operation Committee"	the co-operation committee established under the TCS CFC
"Tencent Beijing"	Tencent Technology (Beijing) Company Limited
"Tencent Charity Funds"	charity funds established by the Group
"Tencent Chengdu"	Tencent Technology (Chengdu) Company Limited
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited
"Tencent Information Chongqing"	Tencent Information Technology (Chongqing) Company Limited
"Tencent Information Shanghai"	Tencent Information Technology (Shanghai) Company Limited
"Tencent Information Shenzhen"	Tencent Information Technology (Shenzhen) Company Limited
"Tencent Shanghai"	Tencent Technology (Shanghai) Company Limited
"Tencent Technology"	Tencent Technology (Shenzhen) Company Limited
"Tencent Wuhan"	Tencent Technology (Wuhan) Company Limited

Definition

Term	Definition
"Trust Deed I"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2007 Share Award Scheme
"Trust Deed II"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"United States"	the United States of America
"USD"	the lawful currency of the United States
"VAS"	value-added services
"Wang Dian"	Nanjing Wang Dian Technology Company Limited
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Information Shenzhen, Tencent Chengdu, Tencent Information Chongqing, Tencent Information Shanghai, Tencent Shanghai, Tencent Wuhan and Hainan Network

Tencent 腾讯

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