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

**ANNOUNCEMENT OF THE ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2017. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited				
	31 December 2017	31 December 2016	Three months ended Year- on-year change	30 September 2017	Quarter- on-quarter change
	(RMB in millions, unless specified)				
Revenues	66,392	43,864	51%	65,210	2%
Gross profit	31,495	23,626	33%	31,681	-1%
Operating profit	25,724	13,930	85%	22,746	13%
Profit for the period	21,622	10,523	105%	18,047	20%
Profit attributable to equity holders of the Company	20,797	10,529	98%	18,006	16%
Non-GAAP profit attributable to equity holders of the Company	17,454	12,332	42%	17,070	2%
EPS (RMB per share)					
- basic	2.206	1.121	97%	1.912	15%
- diluted	2.177	1.108	96%	1.888	15%
Non-GAAP EPS (RMB per share)					
- basic	1.852	1.313	41%	1.812	2%
- diluted	1.827	1.298	41%	1.790	2%

	Year ended 31 December		
	2017	2016	Year-on-year change
	(RMB in millions, unless specified)		
Revenues	237,760	151,938	56%
Gross profit	116,925	84,499	38%
Operating profit	90,302	56,117	61%
Profit for the year	72,471	41,447	75%
Profit attributable to equity holders of the Company	71,510	41,095	74%
Non-GAAP profit attributable to equity holders of the Company	65,126	45,420	43%
EPS (RMB per share)			
- basic	7.598	4.383	73%
- diluted	7.499	4.329	73%
Non-GAAP EPS (RMB per share)			
- basic	6.920	4.844	43%
- diluted	6.830	4.784	43%

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.88 per share (2016: HKD0.61 per share) for the year ended 31 December 2017, subject to the approval of the shareholders at the 2018 AGM. Such proposed dividend will be payable on 1 June 2018 to the shareholders whose names appear on the register of members of the Company on 24 May 2018.

BUSINESS REVIEW AND OUTLOOK

1. Company Strategic Highlights

In 2017, we fortified our “Connection” strategy by enriching our content and services, thus promoting interaction and sharing among our users in innovative ways.

- *QQ*: We focused on rolling out entertainment-oriented features which appealed to young users, driving their time spent on smart devices. Our KanDian news feed service targets the entertainment-oriented information needs of young users. We have strengthened KanDian’s curation capability and recommendation algorithms to offer a more personalized news feed service and to enhance user stickiness. QQ released a series of AI-enabled features which encourage users to interact in rich media formats with entertaining tools, such as face swap effects and video chat filters.
- *Weixin* and *WeChat*: We further grew Weixin’s and WeChat’s user bases, such that their combined monthly active users exceeded 1 billion accounts after the Chinese New Year. Since the launch of Mini Programs in January 2017, we have been enhancing Mini Programs’ functionalities, in order to facilitate their discovery by users and the development process. Mini Programs connect users across a wide spectrum of online and offline services including retail, eCommerce, lifestyle services, municipal services and games. In particular, Mini Games (a subset of Mini Programs) received a warm user reception following their launch in December 2017, further driving wide adoption of Mini Programs among users. As of January 2018, 580,000 Mini Programs were launched with over 170 million DAU.

We continued to achieve solid growth across core business segments:

- *Online games*: We sustained another year of strong growth in both smart phone and PC games. On the mobile front, our in-house developed MOBA game, Honour of Kings, achieved mass adoption and became the most popular smart phone game in China in terms of DAU. It consistently ranked top in app stores’ grossing charts for China. We achieved some initial success with the launch of its overseas version, Arena of Valor, in South East Asia. We further strengthened our leadership as the preferred publishing partner in China for domestic and international smart phone game developers. Successfully launching several licensed role playing games enhanced our presence in this high-revenue game genre. We also diversified our smart phone game portfolio by launching strategy and car-racing titles. On PC, we solidified our leading position in 2017 against a challenging market environment. We strengthened core user engagement by organizing eSports tournaments and live streaming activities. Through attaining the PC

publishing rights and mobile development rights for the popular survival shooter game “PUBG” in China, we are well-positioned to develop this emerging category of games during 2018, as evidenced by the late-mover success of the mobile game PUBG: Exciting Battleground launched before Chinese New Year.

- *Digital content:* Tencent Video achieved rapid growth in traffic and paying users driven by the popularity of our exclusive drama series, movies and self-commissioned content. We became the leading video streaming platform in China with over 137 million mobile DAU during the fourth quarter and 56 million subscriptions as of the end of 2017. In November, we successfully listed our online literature business, China Literature, on the Main Board of The Stock Exchange of Hong Kong Limited. China Literature operates one of the largest and most diverse libraries of online literary content in China. We remain its controlling shareholder and will continue to leverage its rich and diverse content library for exploring adaptation into other media formats. Tencent Music operates the three most popular music apps in China by DAU, namely QQ Music, Kugou and WeSing. It increased subscription revenues and achieved robust virtual gifting sales. In the area of news feed content and short video, we upgraded Tencent Open Media Platform to centralize the content library and facilitate content curation for distribution across our news, browser and social properties.
- *Advertising:* For social and others advertising, we deployed our AI technology and data analysis capabilities to further strengthen the user targeting capabilities of our advertising platform, enabling our advertisers to achieve higher ROI and effectiveness. Catering to advertiser demand, we increased our ad load for Weixin Moments in certain first-tier cities and lowered the traffic threshold for advertisements in Weixin Official Accounts. The number of advertisers for social advertisements grew strongly, helped by our self-service platform and our partner platforms. For media advertising, the popularity of our original and licensed video content contributed to traffic growth, user engagement, and helped to attract more branding and sponsorship advertisements. We have completed the revamp of our news feed advertising system and started to resume monetization at the end of 2017. To facilitate effective placement by advertisers, we launched a unified advertising platform which integrated the advertising inventory of all our news feed products.
- *Payment related services:* We extended our leadership in mobile payment in terms of active user accounts and further increased our presence in commercial transactions. For social transactions, total transaction volume increased year-on-year and money transfers kept on growing while red envelope gifting volume decreased. For commercial transactions, our offline transaction volume more than doubled year-on-year. We deepened our

relationships with key channel partners and empowered more small merchants with technologies to enhance their operational efficiency. Payment is also an important platform for upselling our Internet finance products. LiCaiTong, our wealth management platform, aggregated more than RMB300 billion assets under management as of the end of January 2018. WeBank achieved rapid growth in its unsecured consumer loan business, Weilidai, which managed outstanding loans of over RMB100 billion as of the end of 2017 while maintaining a low non-performing loan ratio. In October 2017, we attained an insurance distribution license in China and started to partner with insurance companies in offering customized insurance products.

- *Cloud services:* Tencent Cloud continued to grow rapidly during the year. We maintained our leading market position in cloud services verticals including online games and video cloud services. We deepened our penetration among the leading Internet industries with more key clients, and expanded our client base in cloud services for financial services and government sectors. Our sales, channel and big data capabilities enabled us to offer smart retail solutions targeted at supermarkets, department stores, and fast moving consumer goods companies.

We are committed to investing in Artificial Intelligence (AI) and applying AI technologies to our existing products, such as performance advertising systems, content services and financial services. In addition to these core business use cases, we are deploying AI in new areas such as medical healthcare and translation. We launched an AI-empowered diagnostic medical imaging product called AI Medical Innovation System (“騰訊覓影”) which is now being deployed in close to 100 hospitals in China with accuracy rates of over 90% for diagnoses of esophageal cancer. Our AI Lab rolled out an AI-assisted translation software. In view of demand among traditional retailers to undergo digital transformation, we launched our smart retail strategy to empower offline retailers with our technological capabilities including payment, cloud, data analytics and AI technologies. We also provide traffic support to enable merchants access into our online user base. In addition, Weixin Official Accounts and Mini Programs can act as CRM systems for retailers to better connect with their customers.

2. Company Financial Performance

In fiscal year 2017

We achieved 56% year-on-year revenue growth. Smart phone games and PC games, payment related services, digital content subscriptions and sales, and social and video advertising were key contributors to the overall revenue growth.

Operating profit grew by 61% year-on-year. Operating margin was 38%, up 1 percentage point from the previous year.

Profit attributable to equity holders of the Company increased by 74% year-on-year. Non-GAAP profit attributable to equity holders of the Company increased by 43%. Free cash flow grew by 70%.

3. Company Business Highlights

Operating Information

	As at 31 December 2017	As at 31 December 2016	Year- on-year change	As at 30 September 2017	Quarter- on-quarter change
MAU of QQ	783.4	868.5	-9.8%	843.2	-7.1%
Smart device MAU of QQ ¹	683.0	671.6	1.7%	652.9	4.6%
PCU of QQ (for the quarter)	270.8	243.7	11.1%	272.2	-0.5%
Combined MAU of Weixin and WeChat	988.6	889.3	11.2%	980.0	0.9%
MAU of Qzone	563.3	638.0	-11.7%	568.4	-0.9%
Smart device MAU of Qzone ¹	554.0	609.4	-9.1%	551.8	0.4%
Fee-based VAS registered subscriptions	134.6	110.2	22.1%	125.3	7.4%

¹ Since the first quarter of 2017, we have adjusted historical smart device QQ and Qzone MAU figures so as to include users who only participate in certain activities inside the QQ and Qzone applications, such as interest groups, listening to online music, or reading online literature. These changes had a relatively immaterial impact on the MAU count and growth rates, but we feel better reflect the broadening range of user activities within QQ.

Social and Communication

- *QQ*: Smart device MAU was up by 1.7% year-on-year to 683.0 million while PCU, including PC and mobile, increased by 11.1% year-on-year to 270.8 million. Smart device MAU for users aged 21 years or below increased year-on-year and their time spent per user also increased, indicating higher stickiness among young users. We launched AI-enabled features designed to attract young users to create amusing photo-, audio- and video-based messages. During the Chinese New Year, we encouraged users to send short-form greeting videos for receiving red envelopes, and to personalize greetings with Chinese New Year-themed animation and background music.
- *Qzone*: Smart device MAU was down 9.1% year-on-year to 554.0 million. Campus Qzone further increased coverage in high schools and colleges.
- *Weixin* and *WeChat*: Combined MAU was 988.6 million, representing year-on-year growth of 11.2%. Following the Chinese New Year, the combined MAU exceeded 1 billion. We fine-tuned the Weixin user interface to enable more prominent featuring of Mini Programs. The launch of Mini Games in the end of 2017 gained widespread attention and accelerated adoption among users.

Online Games

PC client games achieved approximately RMB12.8 billion revenues, representing 13% year-on-year revenue growth, mainly contributed by the increase in DnF and LoL. Active users declined due to the general user migration to mobile devices while revenues were impacted by reduced item-sales marketing in the fourth quarter of 2017. PC game revenues are likely to remain under pressure in future quarters impacted by the mobile shift. We will continue to develop the PC game franchise by enhancing our core users' engagement through organizing professional eSports tournaments, promoting breakout new games such as PUBG and Fortnite, and discovering innovative game titles such as Subnautica to strengthen our platform.

Smart phone games achieved approximately RMB16.9 billion revenues, up 59% year-on-year. The number of active users remained healthy while ARPU was down quarter-on-quarter. Our shooter game CFM rolled out a survival mode which greatly expanded its user base but with no immediate monetization. Several RPG games entered into the post-launch user consolidation phase and their revenues reduced sequentially during the quarter. We have extended our leadership in smart phone games through the roll out of new game genres. We launched two PUBG mobile games - PUBG: Exciting Battleground, which has

achieved by far the highest DAU within the survival shooter game genre, and PUBG: Full Ahead, which has attained solid DAU. Currently, we focus on user experience and are yet to monetize these games. In December, we launched QQ Speed Mobile, which achieved breakout success with over 20 million DAU and healthy monetization. Its successful launch illustrated our capability to create an original game IP, operate it successfully on PC, and then extend its success to mobile.

Digital Content

Total fee-based VAS subscriptions grew by 22% year-on-year to 135 million, primarily driven by video and music streaming services. Tencent Video became the leading online video platform in China in terms of mobile DAU and subscriptions. Our mobile video DAU increased by 44% year-on-year to 137 million during the fourth quarter of 2017 and our subscriptions increased by 121% year-on-year to 56 million as of the end of 2017. Leveraging our diversified content strategy and proven operations expertise, we further grew our online video subscriptions to approximately 62.6 million as of the end of February 2018. Our IP portfolio under China Literature and Tencent Games provides a rich source for adaptation of the quality content into video. We have accumulated an exclusive content library covering TV drama series, movies, variety shows, animation, documentaries and music programs. We are committed to investing in high quality content to solidify our position as the largest and most rapidly growing online video platform in China.

Online Advertising

Our online advertising business achieved 49% year-on-year growth in revenues.

For media advertising, video revenues continued to demonstrate strong growth due to popular video content such as the self-commissioned HoK-themed variety show “王者出擊”, and selected drama series. News revenues decreased year-on-year as we were still revamping the advertising system during the quarter. We have launched a unified advertisement placement platform for all news feed products.

For social and others advertising, our advertising revenues year-on-year increase was primarily driven by higher advertising demand due to the enhanced targeting capability of our platforms and an expanded advertiser base leveraging our partner platforms. The sequential increase was mainly due to positive eCommerce seasonality. Advertising impressions also increased in Weixin Moments and Official Accounts, and on our mobile advertising network. We are now testing CPC-based advertising links in Official Accounts which connect users to advertisers' Mini Programs.

Others

We recorded 121% year-on-year revenue growth for other businesses, which was primarily driven by the strong growth of payment related and cloud services. Commercial transaction volume of Weixin Pay continued to grow at a fast pace, driven by offline transaction volumes, which more than doubled year-on-year.

Tencent Cloud's global infrastructure covered 21 regions and operated 36 availability zones in the world as of end of 2017. While we maintained our leading position in verticals such as online games and video, we achieved rapid growth in the financial services industry through strategic partnerships with major banks and insurance clients. In addition, we offered smart retail solutions targeting supermarkets, department stores and fast moving consumer goods companies.

4. Company Outlook and Strategies for 2018

Looking forward, we will more aggressively invest to strengthen our long-term competitive positions in areas including online video, payment services, cloud services, AI technologies and smart retail. Our development initiatives include:

- Strengthening our social platforms to encourage user sharing, enhance connections with users' daily lives and facilitate interactions with ecosystem partners;
- Enhancing the popularity of our games through upgrading the content of our existing titles and adding innovative new titles;
- Investing in digital content, including long form and short form video content, in order to further grow our subscriber base;
- Increasing use case scenarios for payment related services to accelerate merchant and user adoption, and cooperating with partners in developing Internet financial services;
- Expanding our cloud infrastructure and recruiting more talent to better serve our clients;
- Investing in AI technologies for applications such as advertisement targeting, recommendation algorithms, and healthcare;
- Deploying our smart retail strategy to empower offline retailers by leveraging our technology services.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended 31 December 2017 Compared to Year Ended 31 December 2016

The following table sets forth the comparative figures for the years ended 31 December 2017 and 2016:

	Year ended 31 December	
	2017	2016
	(RMB in millions)	
Revenues	237,760	151,938
Cost of revenues	<u>(120,835)</u>	<u>(67,439)</u>
Gross profit	116,925	84,499
Interest income	3,940	2,619
Other gains, net	20,140	3,594
Selling and marketing expenses	(17,652)	(12,136)
General and administrative expenses	<u>(33,051)</u>	<u>(22,459)</u>
Operating profit	90,302	56,117
Finance costs, net	(2,908)	(1,955)
Share of profit/(loss) of associates and joint ventures	<u>821</u>	<u>(2,522)</u>
Profit before income tax	88,215	51,640
Income tax expense	<u>(15,744)</u>	<u>(10,193)</u>
Profit for the year	<u><u>72,471</u></u>	<u><u>41,447</u></u>
Attributable to:		
Equity holders of the Company	71,510	41,095
Non-controlling interests	<u>961</u>	<u>352</u>
	<u><u>72,471</u></u>	<u><u>41,447</u></u>
Non-GAAP profit attributable to equity holders of the Company	<u><u>65,126</u></u>	<u><u>45,420</u></u>

Revenues. Revenues increased by 56% to RMB237.8 billion for the year ended 31 December 2017 on a year-on-year basis. The following table sets forth our revenues by line of business for the years ended 31 December 2017 and 2016:

	Year ended 31 December			
	2017		2016	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	153,983	65%	107,810	71%
Online advertising	40,439	17%	26,970	18%
Others	43,338	18%	17,158	11%
Total revenues	<u>237,760</u>	<u>100%</u>	<u>151,938</u>	<u>100%</u>

- Revenues from our VAS business increased by 43% to RMB154.0 billion for the year ended 31 December 2017 on a year-on-year basis. Online games revenues grew by 38% to RMB97,883 million. The increase was primarily driven by revenue growth from our smart phone games, including existing titles such as Honour of Kings, and new titles such as the China version of Contra Return, Dragon Nest Mobile and Legacy TLBB Mobile. Revenues from our PC client games, such as DnF and LoL, also contributed to the increase. Social networks revenues increased by 52% to RMB56,100 million. The increase was mainly driven by digital content services such as live broadcast, subscription video streaming and subscription music streaming, as well as from in-game virtual item sales.
- Revenues from our online advertising business increased by 50% to RMB40,439 million for the year ended 31 December 2017 on a year-on-year basis. Media advertising revenues grew by 30% to RMB14,829 million. The increase mainly reflected higher traffic and revenues from our Tencent Video, video streaming services. Social and others advertising revenues increased by 65% to RMB25,610 million. The increase was primarily driven by growth in advertising revenues derived from Weixin, our other mobile apps, and our advertising network.²
- Revenues from our other businesses increased by 153% to RMB43,338 million for the year ended 31 December 2017 on a year-on-year basis. The increase mainly reflected revenue growth from our payment related and cloud services.

² Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 67% to RMB26,296 million and brand display advertising revenues increased by 26% to RMB14,143 million for the year ended 31 December 2017 on a year-on-year basis.

Cost of revenues. Cost of revenues increased by 79% to RMB120.8 billion for the year ended 31 December 2017 on a year-on-year basis. The increase primarily reflected greater content costs, costs of payment related services, and channel costs. As a percentage of revenues, cost of revenues increased to 51% for the year ended 31 December 2017 from 44% for the year ended 31 December 2016, mainly due to business mix changes and greater channel costs for our smart phone games. The following table sets forth our cost of revenues by line of business for the years ended 31 December 2017 and 2016:

	Year ended 31 December			
	2017		2016	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	61,389	40%	37,622	35%
Online advertising	25,586	63%	15,396	57%
Others	<u>33,860</u>	78%	<u>14,421</u>	84%
Total cost of revenues	<u>120,835</u>		<u>67,439</u>	

- Cost of revenues for our VAS business increased by 63% to RMB61,389 million for the year ended 31 December 2017 on a year-on-year basis. The increase mainly reflected greater content costs (including content costs for our subscription video streaming and live broadcast services), and channel costs for our smart phone games, in turn due to extended cooperation with third-party app stores.
- Cost of revenues for our online advertising business increased by 66% to RMB25,586 million for the year ended 31 December 2017 on a year-on-year basis. The increase primarily reflected greater investments in, and amortisation of, video content. Traffic acquisition costs as well as bandwidth and server custody fees also increased.
- Cost of revenues for our other businesses increased by 135% to RMB33,860 million for the year ended 31 December 2017 on a year-on-year basis. The increase was mainly driven by the increased scale of our payment related and cloud services.

Other gains, net. We recorded net other gains totalling RMB20,140 million for the year ended 31 December 2017, which primarily consisted of net deemed disposal gains arising from the capital activities of certain investee companies (such as the IPOs of Yixin, Netmarble, Sea, ZhongAn Insurance and Sogou), fair value gains as a result of increases in valuations of certain investments (in verticals such as bike sharing, healthcare and fintech), as well as subsidies and tax rebates.

Selling and marketing expenses. Selling and marketing expenses increased by 45% to RMB17,652 million for the year ended 31 December 2017 on a year-on-year basis. The increase mainly reflected greater marketing spending on products and platforms such as online games, online media and payment related services, as well as higher staff costs. As a percentage of revenues, selling and marketing expenses decreased to 7% for the year ended 31 December 2017 from 8% for the year ended 31 December 2016.

General and administrative expenses. General and administrative expenses increased by 47% to RMB33,051 million for the year ended 31 December 2017 on a year-on-year basis. The increase primarily reflected greater R&D expenses and staff costs due to our business expansion. As a percentage of revenues, general and administrative expenses decreased to 14% for the year ended 31 December 2017 from 15% for the year ended 31 December 2016.

Finance costs, net. Net finance costs increased by 49% to RMB2,908 million for the year ended 31 December 2017 on a year-on-year basis. The increase was mainly driven by greater interest expenses due to higher amount of indebtedness.

Share of profit/(loss) of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB821 million for the year ended 31 December 2017, compared to share of losses of RMB2,522 million for the year ended 31 December 2016. Some of our investee companies registered profit as a result of improved performance and one-off gains in 2017, compared to losses in 2016.

Income tax expense. Income tax expense increased by 54% to RMB15,744 million for the year ended 31 December 2017 on a year-on-year basis. The increase primarily reflected greater profit before income tax and higher withholding tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 74% to RMB71,510 million for the year ended 31 December 2017 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 43% to RMB65,126 million for the year ended 31 December 2017.

Fourth Quarter of 2017 Compared to Fourth Quarter of 2016

The following table sets forth the comparative figures for the fourth quarter of 2017 and the fourth quarter of 2016:

	Unaudited	
	Three months ended	
	31 December	31 December
	2017	2016
	(RMB in millions)	
Revenues	66,392	43,864
Cost of revenues	<u>(34,897)</u>	<u>(20,238)</u>
Gross profit	31,495	23,626
Interest income	1,156	653
Other gains, net	7,906	1,022
Selling and marketing expenses	(6,022)	(4,462)
General and administrative expenses	<u>(8,811)</u>	<u>(6,909)</u>
Operating profit	25,724	13,930
Finance costs, net	(859)	(483)
Share of losses of associates and joint ventures	<u>(120)</u>	<u>(522)</u>
Profit before income tax	24,745	12,925
Income tax expense	<u>(3,123)</u>	<u>(2,402)</u>
Profit for the period	<u>21,622</u>	<u>10,523</u>
Attributable to:		
Equity holders of the Company	20,797	10,529
Non-controlling interests	<u>825</u>	<u>(6)</u>
	<u>21,622</u>	<u>10,523</u>
Non-GAAP profit attributable to equity holders of the Company	<u>17,454</u>	<u>12,332</u>

Revenues. Revenues increased by 51% to RMB66,392 million for the fourth quarter of 2017 on a year-on-year basis. The following table sets forth our revenues by line of business for the fourth quarter of 2017 and the fourth quarter of 2016:

	Unaudited			
	Three months ended			
	31 December 2017		31 December 2016	
	% of total		% of total	
	Amount	revenues	Amount	revenues
	(RMB in millions, unless specified)			
VAS	39,947	60%	29,191	66%
Online advertising	12,361	19%	8,288	19%
Others	14,084	21%	6,385	15%
Total revenues	<u>66,392</u>	<u>100%</u>	<u>43,864</u>	<u>100%</u>

- Revenues from our VAS business increased by 37% to RMB39,947 million for the fourth quarter of 2017 on a year-on-year basis. Online games revenues increased by 32% to RMB24,367 million. The increase primarily reflected growth in revenues from our existing smart phone games such as Honour of Kings, and new smart phone games such as Kings of Chaos and Legacy TLBB Mobile. The increase also reflected higher revenues from our PC client games such as DnF and LoL. Social networks revenues grew by 45% to RMB15,580 million. The increase was mainly due to higher revenues from digital content services such as subscription video streaming and live broadcast, as well as from in-game virtual item sales.
- Revenues from our online advertising business increased by 49% to RMB12,361 million for the fourth quarter of 2017 on a year-on-year basis. Media advertising revenues grew by 22% to RMB4,121 million, mainly benefiting from revenue growth from our Tencent Video, video streaming services, partly offset by the reduced advertising inventory of our news apps due to revamping their advertising systems. Social and others advertising revenues increased by 68% to RMB8,240 million, primarily due to growth in advertising revenues derived from Weixin (mainly from Weixin Moments and Weixin Official Accounts) and our advertising network.³
- Revenues from our other businesses increased by 121% to RMB14,084 million for the fourth quarter of 2017 on a year-on-year basis. The increase was mainly driven by growth in revenues from our payment related and cloud services.

³ Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 59% to RMB8,204 million and brand display advertising revenues increased by 33% to RMB4,157 million for the fourth quarter of 2017 on a year-on-year basis.

Cost of revenues. Cost of revenues increased by 72% to RMB34,897 million for the fourth quarter of 2017 on a year-on-year basis. The increase mainly reflected greater content costs, costs of payment related services, as well as channel costs. As a percentage of revenues, cost of revenues increased to 53% for the fourth quarter of 2017 from 46% for the fourth quarter of 2016, primarily reflecting business mix changes, and higher channel costs for our smart phone games. The following table sets forth our cost of revenues by line of business for the fourth quarter of 2017 and the fourth quarter of 2016:

	Unaudited			
	Three months ended			
	31 December 2017		31 December 2016	
	Amount	% of revenues segment	Amount	% of revenues segment
	(RMB in millions, unless specified)			
VAS	16,268	41%	10,734	37%
Online advertising	7,759	63%	4,424	53%
Others	<u>10,870</u>	77%	<u>5,080</u>	80%
Total cost of revenues	<u><u>34,897</u></u>		<u><u>20,238</u></u>	

- Cost of revenues for our VAS business increased by 52% to RMB16,268 million for the fourth quarter of 2017 on a year-on-year basis. The increase mainly reflected greater content costs (including content costs for our live broadcast and subscription video streaming services), and higher channel costs for our smart phone games as a result of extended cooperation with third-party app stores.
- Cost of revenues for our online advertising business increased by 75% to RMB7,759 million for the fourth quarter of 2017 on a year-on-year basis. The increase was primarily driven by greater investments in, and amortisation of, video content, and higher traffic acquisition costs due to the rapid growth of our advertising network business.
- Cost of revenues for our other businesses increased by 114% to RMB10,870 million for the fourth quarter of 2017 on a year-on-year basis. The increase was mainly due to the increased scale of our payment related and cloud services.

Other gains, net. We recorded net other gains totalling RMB7,906 million for the fourth quarter of 2017, which mainly consisted of net deemed disposal gains relating to the capital activities of certain investee companies including the IPOs of Yixin, Sea and Sogou, subsidies and tax rebates, and dividend income arising from certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 35% to RMB6,022 million for the fourth quarter of 2017 on a year-on-year basis. The increase primarily reflected greater marketing spending on products and platforms such as online games, online media and payment related services. As a percentage of revenues, selling and marketing expenses decreased to 9% for the fourth quarter of 2017 from 10% for the fourth quarter of 2016.

General and administrative expenses. General and administrative expenses increased by 28% to RMB8,811 million for the fourth quarter of 2017 on a year-on-year basis. The increase was primarily driven by greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses decreased to 13% for the fourth quarter of 2017 from 16% for the fourth quarter of 2016.

Finance costs, net. Net finance costs increased by 78% to RMB859 million for the fourth quarter of 2017 on a year-on-year basis. The increase mainly reflected greater interest expenses driven by higher amount of indebtedness.

Income tax expense. Income tax expense increased by 30% to RMB3,123 million for the fourth quarter of 2017 on a year-on-year basis. The increase was mainly driven by greater profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 98% to RMB20,797 million for the fourth quarter of 2017 on a year-on-year basis. Non-GAAP profit attributable to equity holders of the Company increased by 42% to RMB17,454 million.

Fourth Quarter of 2017 Compared to Third Quarter of 2017

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

	Unaudited	
	Three months ended	
	31 December	30 September
	2017	2017
	(RMB in millions)	
Revenues	66,392	65,210
Cost of revenues	<u>(34,897)</u>	<u>(33,529)</u>
Gross profit	31,495	31,681
Interest income	1,156	1,017
Other gains, net	7,906	3,918
Selling and marketing expenses	(6,022)	(4,812)
General and administrative expenses	<u>(8,811)</u>	<u>(9,058)</u>
Operating profit	25,724	22,746
Finance costs, net	(859)	(524)
Share of (loss)/profit of associates and joint ventures	<u>(120)</u>	<u>818</u>
Profit before income tax	24,745	23,040
Income tax expense	<u>(3,123)</u>	<u>(4,993)</u>
Profit for the period	<u>21,622</u>	<u>18,047</u>
Attributable to:		
Equity holders of the Company	20,797	18,006
Non-controlling interests	<u>825</u>	<u>41</u>
	<u>21,622</u>	<u>18,047</u>
Non-GAAP profit attributable to equity holders of the Company	<u>17,454</u>	<u>17,070</u>

Revenues. Revenues increased by 2% to RMB66,392 million for the fourth quarter of 2017 on a quarter-on-quarter basis.

- Revenues from our VAS business decreased by 5% to RMB39,947 million for the fourth quarter of 2017. Online games revenues decreased by 9% to RMB24,367 million. The decrease mainly reflected a high base for PC games driven by item-sales promotion activities in the third quarter of 2017, decreased revenues from RPG and shooter genre smart phone games, as well as the timing of new RPG smart phone game releases and of new content for certain other smart phone games. Social networks revenues increased by 2% to RMB15,580 million. The increase was primarily driven by revenue growth from our digital content services such as subscription video streaming and live broadcast, partially offset by reduced in-game virtual item sales.
- Revenues from our online advertising business increased by 12% to RMB12,361 million for the fourth quarter of 2017. Media advertising revenues were RMB4,121 million, broadly stable compared to last quarter. Social and others advertising revenues grew by 19% to RMB8,240 million, mainly driven by higher advertising revenues derived from Weixin and from our advertising network, in turn benefiting from the positive seasonality of eCommerce promotional activities in the fourth quarter.⁴
- Revenues from our other businesses increased by 17% to RMB14,084 million for the fourth quarter of 2017, primarily due to our payment related and cloud services.

Cost of revenues. Cost of revenues increased by 4% to RMB34,897 million for the fourth quarter of 2017 on a quarter-on-quarter basis. The increase primarily reflected greater costs of payment related services, higher traffic acquisition costs, as well as higher bandwidth and server custody fees. As a percentage of revenues, cost of revenues increased to 53% for the fourth quarter of 2017 from 51% for the third quarter of 2017.

- Cost of revenues for our VAS business decreased by 4% to RMB16,268 million for the fourth quarter of 2017. The decrease mainly reflected lower content and channel costs, reflecting the timing of new content for our subscription video streaming services and fluctuation in licensed game revenues.

⁴ Since the first quarter of 2017, we have reclassified online advertising revenues. Without the reclassification, performance-based advertising revenues increased by 17% to RMB8,204 million and brand display advertising revenues increased by 3% to RMB4,157 million for the fourth quarter of 2017 on a quarter-on-quarter basis.

- Cost of revenues for our online advertising business increased by 10% to RMB7,759 million for the fourth quarter of 2017. The increase was mainly driven by greater traffic acquisition costs due to the rapid growth of our advertising network business.
- Cost of revenues for our other businesses increased by 13% to RMB10,870 million for the fourth quarter of 2017. The growth was mainly due to the increased scale of our payment related and cloud services.

Selling and marketing expenses. Selling and marketing expenses increased by 25% to RMB6,022 million for the fourth quarter of 2017 on a quarter-on-quarter basis. The increase was mainly driven by higher marketing spending on products and platforms such as payment related services and online media, as well as seasonal marketing and promotion activities for our online games.

General and administrative expenses. General and administrative expenses decreased by 3% to RMB8,811 million for the fourth quarter of 2017 on a quarter-on-quarter basis, primarily reflecting the true-up of our bonus forecast at year end.

Share of (loss)/profit of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB120 million for the fourth quarter of 2017, compared to share of profit of RMB818 million for the third quarter of 2017. The change mainly reflected the absence of one-off gains which certain investee companies booked in the third quarter of 2017.

Income tax expense. Income tax expense decreased by 37% to RMB3,123 million for the fourth quarter of 2017 on a quarter-on-quarter basis. The decrease primarily reflected a reversal of income tax expense for our certain subsidiaries in China which were qualified in the fourth quarter of 2017 to enjoy a lower CIT rate.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 16% to RMB20,797 million for the fourth quarter of 2017 on a quarter-on-quarter basis. Non-GAAP profit attributable to equity holders of the Company increased by 2% to RMB17,454 million.

Other Financial Information

	Unaudited			Year ended	
	Three months ended			31 December	
	31 December 2017	30 September 2017	31 December 2016	2017	2016
	(RMB in millions, unless specified)				
EBITDA (a)	23,278	24,024	16,775	89,724	62,550
Adjusted EBITDA (a)	25,127	25,632	18,495	95,861	66,863
Adjusted EBITDA margin (b)	38%	39%	42%	40%	44%
Interest expense	839	794	611	3,060	2,167
Net cash (c)	16,332	18,862	18,140	16,332	18,140
Capital expenditures (d)	4,975	3,492	2,839	13,585	12,100

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 and others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding media contents, game licences and other contents).

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

	Unaudited			Year ended	
	31 December	Three months ended		31 December	
	2017	30 September 2017	31 December 2016	2017	2016
	(RMB in millions, unless specified)				
Operating profit	25,724	22,746	13,930	90,302	56,117
Adjustments:					
Interest income	(1,156)	(1,017)	(653)	(3,940)	(2,619)
Other gains, net	(7,906)	(3,918)	(1,022)	(20,140)	(3,594)
Depreciation of property, plant and equipment and investment properties	1,376	1,263	1,007	4,880	3,716
Amortisation of intangible assets	5,240	4,950	3,513	18,622	8,930
EBITDA	23,278	24,024	16,775	89,724	62,550
Equity-settled share-based compensation	1,849	1,608	1,720	6,137	4,313
Adjusted EBITDA	<u>25,127</u>	<u>25,632</u>	<u>18,495</u>	<u>95,861</u>	<u>66,863</u>

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP

adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliations of the Group's non-GAAP financial measures for the fourth quarter of 2017 and 2016, the third quarter of 2017, and the years ended 31 December 2017 and 2016 to the nearest measures prepared in accordance with IFRS:

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

Unaudited three months ended 30 September 2017						
Adjustments						
As reported	Share-based compensation	Net (gains)/losses		Amortisation of intangible assets	Impairment provision	Non-GAAP
		from investee companies				
(a)	(b)	(c)	(d)	(RMB in millions, unless specified)		
Operating profit	22,746	1,632	(3,169)	110	295	21,614
Profit for the period	18,047	1,851	(3,475)	395	356	17,174
Profit attributable to equity holders	18,006	1,816	(3,475)	367	356	17,070
EPS (RMB per share)						
- basic	1.912					1.812
- diluted	1.888					1.790
Operating margin	35%					33%
Net margin	28%					26%

Unaudited three months ended 31 December 2016

	Adjustments						
	As reported	Share-based compensation	Net (gains)/losses from investee companies		Amortisation of intangible assets	Impairment provision	Non-GAAP
			(a)	(b)			
(RMB in millions, unless specified)							
Operating profit	13,930	1,754	(1,502)	162	602	14,946	
Profit for the period	10,523	1,980	(1,440)	541	828	12,432	
Profit attributable to equity holders	10,529	1,940	(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%	

Year ended 31 December 2017

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

Year ended 31 December 2016

	Adjustments					Non-GAAP
	As reported	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets	Impairment provision	
		(a)	(b)	(c)	(d)	
(RMB in millions, unless specified)						
Operating profit	56,117	4,455	(7,624)	397	4,809	58,154
Profit for the year	41,447	5,227	(7,786)	1,651	5,452	45,991
Profit attributable to equity holders	41,095	5,123	(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%

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 arising from investments
- (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 2017 and 30 September 2017 are as follows:

	Audited 31 December 2017	Unaudited 30 September 2017
	(RMB in millions)	
Cash and cash equivalents	105,697	87,343
Term deposits and others	<u>42,540</u>	<u>63,454</u>
	148,237	150,797
Borrowings	(97,790)	(97,290)
Notes payable	<u>(34,115)</u>	<u>(34,645)</u>
Net cash	<u>16,332</u>	<u>18,862</u>

As at 31 December 2017, the Group had net cash of RMB16,332 million. The sequential decline primarily reflected payments for M&A initiatives, partly offset by free cash flow generation. Fair value of our stakes in listed investee companies (including both associates and available-for-sale financial assets, but excluding our stakes in subsidiaries such as China Literature) totalled RMB210.8 billion as at 31 December 2017, compared to RMB171.1 billion as at 30 September 2017.

As at 31 December 2017, RMB45,530 million of our financial resources (cash and cash equivalents, as well as term deposits and others, such as treasury investments with high liquidity) were denominated in non-RMB currencies.

For the fourth quarter of 2017, the Group had free cash flow of RMB24,170 million. This was a result of net cash flow generated from operating activities of RMB28,594 million, offset by payments for capital expenditure of RMB4,424 million.

FINANCIAL INFORMATION
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December	
		2017	2016
	Note	RMB'Million	RMB'Million
Revenues			
Value-added services		153,983	107,810
Online advertising		40,439	26,970
Others		43,338	17,158
		237,760	151,938
Cost of revenues	4	(120,835)	(67,439)
Gross profit		116,925	84,499
Interest income		3,940	2,619
Other gains, net	3	20,140	3,594
Selling and marketing expenses	4	(17,652)	(12,136)
General and administrative expenses	4	(33,051)	(22,459)
Operating profit		90,302	56,117
Finance costs, net		(2,908)	(1,955)
Share of profit/(loss) of associates and joint ventures		821	(2,522)
Profit before income tax		88,215	51,640
Income tax expense	5	(15,744)	(10,193)
Profit for the year		72,471	41,447
Attributable to:			
Equity holders of the Company		71,510	41,095
Non-controlling interests		961	352
		72,471	41,447
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
- basic	6	7.598	4.383
- diluted	6	7.499	4.329

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Year ended 31 December	
	2017	2016
	RMB' Million	RMB' Million
Profit for the year	<u>72,471</u>	<u>41,447</u>
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates	907	863
Net gains from changes in fair value of available-for-sale financial assets	16,854	2,929
Transfer to profit or loss upon disposal of available-for-sale financial assets	(2,561)	(1,176)
Currency translation differences	(9,316)	4,198
Other fair value gains	756	600
<i>Items that may not be subsequently reclassified to profit or loss</i>		
Other fair value losses	<u>(50)</u>	<u>(244)</u>
	<u>6,590</u>	<u>7,170</u>
Total comprehensive income for the year	<u><u>79,061</u></u>	<u><u>48,617</u></u>
Attributable to:		
Equity holders of the Company	78,218	48,194
Non-controlling interests	<u>843</u>	<u>423</u>
	<u><u>79,061</u></u>	<u><u>48,617</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

		As at 31 December	
		2017	2016
	Note	RMB'Million	RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment		23,597	13,900
Construction in progress		3,163	4,674
Investment properties		800	854
Land use rights		5,111	5,174
Intangible assets		40,266	36,467
Investments in associates	8	113,779	70,042
Investments in redeemable instruments of associates	9	22,976	9,627
Investments in joint ventures	10	7,826	630
Available-for-sale financial assets	11	127,218	83,806
Prepayments, deposits and other assets		11,173	7,363
Other financial assets		5,159	1,760
Deferred income tax assets		9,793	7,033
Term deposits		5,365	5,415
		<u>376,226</u>	<u>246,745</u>
Current assets			
Inventories		295	263
Accounts receivable	12	16,549	10,152
Prepayments, deposits and other assets		17,110	14,118
Other financial assets		465	1,649
Term deposits		36,724	50,320
Restricted cash		1,606	750
Cash and cash equivalents		105,697	71,902
		<u>178,446</u>	<u>149,154</u>
Total assets		<u>554,672</u>	<u>395,899</u>

		As at 31 December	
		2017	2016
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		22,204	17,324
Shares held for share award schemes		(3,970)	(3,136)
Other reserves		35,158	23,693
Retained earnings		<u>202,682</u>	<u>136,743</u>
		256,074	174,624
Non-controlling interests		<u>21,019</u>	<u>11,623</u>
Total equity		<u>277,093</u>	<u>186,247</u>
LIABILITIES			
Non-current liabilities			
Borrowings	15	82,094	57,549
Notes payable	16	29,363	36,204
Long-term payables		3,862	4,935
Other financial liabilities		2,154	2,576
Deferred income tax liabilities		5,975	5,153
Deferred revenue		<u>2,391</u>	<u>2,038</u>
		<u>125,839</u>	<u>108,455</u>
Current liabilities			
Accounts payable	14	50,085	27,413
Other payables and accruals		29,433	20,873
Borrowings	15	15,696	12,278
Notes payable	16	4,752	3,466
Current income tax liabilities		8,708	5,219
Other tax liabilities		934	745
Deferred revenue		<u>42,132</u>	<u>31,203</u>
		<u>151,740</u>	<u>101,197</u>
Total liabilities		<u>277,579</u>	<u>209,652</u>
Total equity and liabilities		<u>554,672</u>	<u>395,899</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Year ended 31 December	
	2017	2016
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	106,140	65,518
Net cash flows used in investing activities	(96,392)	(70,923)
Net cash flows generated from financing activities	<u>26,598</u>	<u>31,443</u>
Net increase in cash and cash equivalents	36,346	26,038
Cash and cash equivalents at beginning of the year	71,902	43,438
Exchange (losses)/gains on cash and cash equivalents	<u>(2,551)</u>	<u>2,426</u>
Cash and cash equivalents at end of the year	<u>105,697</u>	<u>71,902</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	48,278	39,804
Term deposits and highly liquid investments with initial terms within three months	<u>57,419</u>	<u>32,098</u>
	<u>105,697</u>	<u>71,902</u>

Note:

1 General information, basis of preparation and presentation

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

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

The consolidated financial statements of the Group have been prepared in accordance with all applicable IFRSs. 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 following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017. The adoption of these amendments does not have any significant impact on the consolidated financial statements of the Group.

IAS 12 (amendment)	Classification of recognition of deferred tax assets for unrealised losses
IAS 7 (amendment)	Disclosure of changes in liabilities arising from financing activities
IFRS 12 (amendment)	Clarification of disclosure requirement of interest in entities classified as held for sale

A number of new standards and amendments to standards are not effective for the financial year beginning 1 January 2017, 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.

The Group will apply IFRS 9 “Financial Instruments” prospectively since 1 January 2018 and comparatives for 2017 will not be restated. Upon the adoption, investments in redeemable instruments of associates, certain available-for-sale financial assets and certain other financial assets of the Group will be reclassified to financial assets at fair value through profit or loss and cumulative fair values of the related available-for-sale financial assets as at 31 December 2017 currently recognised in other reserves will be reclassified to retained earnings on 1 January 2018. The remaining available-for-sale financial assets of the Group will be reclassified as financial assets at fair value through other comprehensive income.

2 Segment information

The Group has following reportable segments for the years ended 31 December 2017 and 2016:

- VAS;
- Online advertising; and
- Others.

“Others” segment of the Group primarily comprises payment related services for individual and corporate users, cloud service and other services.

There were no material inter-segment sales during the years 2017 and 2016. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December 2017			
	VAS	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>153,983</u>	<u>40,439</u>	<u>43,338</u>	<u>237,760</u>
Gross profit	<u>92,594</u>	<u>14,853</u>	<u>9,478</u>	<u>116,925</u>
Depreciation	1,858	561	1,473	3,892
Amortisation	<u>7,836</u>	<u>10,001</u>	<u>—</u>	<u>17,837</u>
	Year ended 31 December 2016			
	VAS	Online	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>107,810</u>	<u>26,970</u>	<u>17,158</u>	<u>151,938</u>
Gross profit	<u>70,188</u>	<u>11,574</u>	<u>2,737</u>	<u>84,499</u>
Depreciation	1,854	200	537	2,591
Amortisation	<u>2,982</u>	<u>5,295</u>	<u>—</u>	<u>8,277</u>

3 Other gains, net

	2017	2016
	RMB'Million	RMB'Million
Gains on disposals and deemed disposals of investee companies (Note)	13,518	6,966
Fair value gains on other financial instruments	4,298	658
Subsidies and tax rebates	3,971	380
Impairment provision for investee companies and intangible assets from acquisition	(2,794)	(4,809)
Dividend income	1,713	563
Donations to Tencent Charity Funds	(820)	(570)
Others	<u>254</u>	<u>406</u>
	<u><u>20,140</u></u>	<u><u>3,594</u></u>

Note:

The disposal and deemed disposal gains during the year ended 31 December 2017 mainly comprised the following:

- (a) gains of approximately RMB5,736 million on dilution of the Group's equity interests in certain associates which are principally engaged in online insurance business, online game business and search engine business, as a result of new shares issued by these associates upon their respective IPOs;
- (b) a gain of approximately RMB3,663 million arising from deemed disposal of an investment in redeemable instruments of associates which is principally engaged in the provision of automobile financing transaction services and re-designation of it as investment in associates due to the conversion of the redeemable instruments of the associate into ordinary shares upon its IPO.

4 Expenses by nature

	2017	2016
	RMB'Million	RMB'Million
Employee benefits expenses (a)	34,866	23,433
Content costs (excluding amortisation of intangible assets)	28,177	17,734
Channel and distribution costs	25,109	13,133
Bandwidth and server custody fees	11,203	7,876
Promotion and advertising expenses	13,661	9,219
Operating lease rentals in respect of office buildings	1,335	1,117
Travelling and entertainment expenses	1,040	800
Amortisation of intangible assets (b)	18,622	8,930
Depreciation of property, plant and equipment	4,850	3,699

Note:

- (a) During the year ended 31 December 2017, the Group incurred expenses for the purpose of research and development of approximately RMB17,456 million (2016: RMB11,845 million), which comprised employee benefits expenses of RMB14,766 million (2016: RMB9,290 million).

No significant development expenses had been capitalised for the years ended 31 December 2017 and 2016.

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

5 Income Tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2017 and 2016.

(b) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2017 and 2016.

(c) PRC corporate income tax

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the PRC for the years ended 31 December 2017 and 2016. The general PRC corporate income tax rate is 25% in 2017.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended 31 December 2017 and 2016. Moreover, according to announcement and circular issued by relevant government authorities, for the year of 2015 and beyond, a software enterprise that qualifies as a national key software enterprise shall file its status with tax authorities for review and record in accordance with the relevant requirements at the time of final tax settlement each year in order to enjoy the preferential tax rate of 10%. The PRC CIT for the relevant subsidiaries of the Company filing for this preferential tax treatment has been provided for at their respective prevailing tax rates during the year. Upon receipt of notification, the relevant subsidiaries of the Company will be entitled to CIT rate of 10% and corresponding tax adjustments will be accounted for.

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

(d) Corporate income tax in other countries

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

(e) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between 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.

Dividends distributed from certain jurisdictions that the Group's entities operate in are also subject to withholding tax at respective applicable tax rates.

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

	2017	2016
	RMB'Million	RMB'Million
Current income tax	15,154	10,791
Deferred income tax	<u>590</u>	<u>(598)</u>
	<u>15,744</u>	<u>10,193</u>

6 Earnings per share

(a) Basic

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

	2017	2016
Profit attributable to equity holders of the Company (RMB' Million)	<u>71,510</u>	<u>41,095</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,411</u>	<u>9,376</u>
Basic EPS (RMB per share)	<u>7.598</u>	<u>4.383</u>

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the years ended 31 December 2017 and 2016, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group.

	2017	2016
Profit attributable to equity holders of the Company (RMB' Million)	<u>71,510</u>	<u>41,095</u>
Weighted average number of ordinary shares in issue (million shares)	9,411	9,376
Adjustments for share options and awarded shares (million shares)	<u>125</u>	<u>118</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,536</u>	<u>9,494</u>
Diluted EPS (RMB per share)	<u>7.499</u>	<u>4.329</u>

7 Dividends

The dividends amounted to RMB5,052 million (2016: RMB3,699 million) were paid during the year ended 31 December 2017.

A final dividend in respect of the year ended 31 December 2017 of HKD0.88 per share (2016: HKD0.61 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2018 and subject to the approval of the shareholders at the 2018 AGM. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

8 Investments in associates

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Investments in associates		
- Listed entities (Note)	60,935	38,516
- Unlisted entities	<u>52,844</u>	<u>31,526</u>
	<u>113,779</u>	<u>70,042</u>

Note:

As at 31 December 2017, the fair value of the investments in associates which are listed entities was RMB156,968 million (31 December 2016: RMB68,565 million).

Movement of investments in associates is analysed as follows:

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
At beginning of the year	70,042	60,171
Additions ((a) and (b))	19,122	9,900
Deemed disposal gains (Note 3 (a) and (b))	9,892	2,091
Share of profit/(loss) of associates	730	(2,549)
Share of other comprehensive income of associates	907	863
Dividends	(312)	(151)
Transfers (c)	20,825	(1,092)
Disposals	(253)	(614)
Impairment provision (d)	(1,277)	(2,117)
Currency translation differences	(5,897)	3,540
At end of the year	<u>113,779</u>	<u>70,042</u>

- (a) During the year ended 31 December 2017, the Group entered into a share purchase agreement with an associate which is engaged in eCommerce business, to subscribe for 7% of its equity interests, on an outstanding basis, at a cash consideration equivalent to approximately RMB3,993 million.
- (b) The Group also acquired certain other associates and made additional investments in existing associates, with an aggregate amount of RMB15,129 million during the year ended 31 December 2017. These associates are principally engaged in online game business and other Internet-related businesses.
- (c) Transfers mainly comprised re-designation of several investments from available-for-sale financial assets and investments in redeemable instruments of associates to investments in associates as a result of change in nature of these investments. Out of these investments, certain contractual rights attached to an investment consortium previously classified as available-for-sale financial assets and other financial assets have been changed, and thus resulted in re-designation of such investment to an associate of the Group. The management of the Group considered that the impact to the Group is not material had this investment been classified as investment in an associate since 1 January 2017.
- (d) During the year ended 31 December 2017, the Group made an aggregate impairment provision of RMB1,277 million (2016: RMB2,117 million) against the carrying amounts of a number of associates. The impairment losses mainly resulted from revisions of long-term financial outlook and the changes in business models of the affected associates.

9 Investments in redeemable instruments of associates

During the year ended 31 December 2017, the Group made aggregate investments in redeemable instruments of associates, including additional investments in existing investees of the Group, of RMB18,487 million (2016: RMB3,628 million).

During the year ended 31 December 2017, the Group also made an aggregate impairment provision of approximately RMB607 million (2016: RMB1,298 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.

10 Investments in joint ventures

As at 31 December 2017, the Group's investments in joint ventures of RMB7,826 million (2016: RMB630 million) mainly comprised investee companies that are principally a special purpose vehicle of which we have a majority stake therein for the investment in one of the telecommunication carriers in the PRC and other joint venture initiatives in other entertainment-related business.

During the year ended 31 December 2017, no impairment provision was made (2016: Nil) against the carrying amounts of the joint ventures, based on the results of impairment assessment performed on the carrying amount against its respective recoverable amount.

11 Available-for-sale financial assets

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Equity investments in listed entities	53,880	20,477
Equity investments in unlisted entities	70,962	62,580
Others	<u>2,376</u>	<u>749</u>
	<u>127,218</u>	<u>83,806</u>

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

	2017	2016
	RMB'Million	RMB'Million
At beginning of the year	83,806	44,339
Additions ((a),(b),(c) and (d))	57,008	37,319
Disposals and transfers (e)	(23,542)	(2,755)
Changes in fair value	16,764	2,567
Impairment provision (f)	(671)	(1,028)
Currency translation differences	(6,147)	3,364
	<u>127,218</u>	<u>83,806</u>
At end of the year	<u>127,218</u>	<u>83,806</u>

Note:

- (a) During the year ended 31 December 2017, the Group made additional investments of approximately USD3,609 million (equivalent to approximately RMB24,312 million) in certain existing investees classified as available-for-sale financial assets. These investees are listed in the United States and principally engaged in the development and sales of electric vehicles, sustainable energy generation and storage equipment and social networking businesses.
- (b) During the year ended 31 December 2017, the Group entered into a share purchase agreement with a company, which is principally engaged in provision of global music streaming subscription services, to acquire approximately 8% of its equity interests at a consideration of USD1,742 million (equivalent to approximately RMB11,428 million), settled in cash of USD600 million (equivalent to approximately RMB3,936 million) and certain new shares of a non-wholly owned subsidiary at fair value of USD1,142 million (equivalent to approximately RMB7,492 million).
- (c) During the year ended 31 December 2017, the Group made additional investments in an existing investee that was classified as available-for-sale financial assets, which is principally engaged in local life services online to offline operations in the PRC, at a total consideration of USD1,597 million (equivalent to approximately RMB10,645 million).
- (d) During the year ended 31 December 2017, the Group also made certain new investments and additional investments with an aggregate amount of approximately RMB10,623 million in listed and unlisted entities mainly operated in the United States, the PRC and other Asian countries. These companies are principally engaged in games, entertainment, technology, and other Internet-related services.
- (e) During the year ended 31 December 2017, the Group re-designated several investments to associates with an aggregate amount of RMB18,684 million as a result of change in nature of these investments (Note 8 (c)).
- (f) The Group made an aggregate impairment provision of RMB671 million (2016: RMB1,028 million) against the carrying amounts of certain available-for-sale financial assets during the year ended 31 December 2017, with reference to their assessed fair values as at 31 December 2017.

12 Accounts receivable

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
0 - 30 days	4,399	3,260
31 - 60 days	6,394	4,019
61 - 90 days	2,259	1,294
Over 90 days	<u>3,497</u>	<u>1,579</u>
	<u>16,549</u>	<u>10,152</u>

Receivable balances as at 31 December 2017 and 31 December 2016 mainly represented amounts due from online advertising customers and agencies, third party platform providers, and telecommunication operators.

Some online advertising customers and agencies 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.

13 Share option and share award schemes

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme II expired on 31 December 2011, 23 March 2014 and 16 May 2017, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes.

In respect of the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV which continue to be in force, the Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein. The exercise price must be in compliance with the requirement under the Listing Rules. In addition, the option vesting period is determined by the Board provided that it is not later than the last day of a 10-year period for the Post-IPO Option Scheme III and a 7-year period for the Post-IPO Option Scheme IV after the date of grant of option.

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	
At 1 January							
2017	HKD120.95	31,247,436	HKD31.70	2,500,000	–	–	33,747,436
Granted	HKD225.44	28,526,215	–	–	HKD273.79	9,219,035	37,745,250
Exercised	HKD49.05	(4,102,812)	–	–	–	–	(4,102,812)
Lapsed	HKD142.65	<u>(160,591)</u>	–	<u>–</u>	HKD272.36	<u>(63,175)</u>	<u>(223,766)</u>
At 31 December							
2017	HKD179.90	<u>55,510,248</u>	HKD31.70	<u>2,500,000</u>	HKD273.80	<u>9,155,860</u>	<u>67,166,108</u>
Exercisable as at 31 December							
2017	HKD118.70	<u>13,152,006</u>	HKD31.70	<u>1,250,000</u>	–	<u>–</u>	<u>14,402,006</u>
At 1 January							
2016	HKD80.59	25,697,305	HKD31.70	5,000,000	–	–	30,697,305
Granted	HKD160.11	11,843,070	–	–	–	–	11,843,070
Exercised	HKD29.69	(6,218,788)	HKD31.70	(2,500,000)	–	–	(8,718,788)
Lapsed	HKD42.72	<u>(74,151)</u>	–	<u>–</u>	–	<u>–</u>	<u>(74,151)</u>
At 31 December							
2016	HKD120.95	<u>31,247,436</u>	HKD31.70	<u>2,500,000</u>	–	<u>–</u>	<u>33,747,436</u>
Exercisable as at 31 December							
2016	HKD86.69	<u>9,617,778</u>	–	<u>–</u>	–	<u>–</u>	<u>9,617,778</u>

During the year ended 31 December 2017, 5,250,000 options were granted to one director of the Company (2016: 3,750,000 options were granted to one director of the Company).

(b) Share award schemes

The Company has adopted the Share Award Schemes as of 31 December 2017, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the years ended 31 December 2017 and 2016 are as follows:

	Number of awarded shares	
	Year ended 31 December	
	2017	2016
At beginning of the year	86,365,812	91,786,907
Granted	19,071,975	52,371,430
Lapsed	(3,227,554)	(3,803,259)
Vested and transferred	<u>(38,573,979)</u>	<u>(53,989,266)</u>
At end of the year	<u>63,636,254</u>	<u>86,365,812</u>
Vested but not transferred as at the end of the year	<u>159,893</u>	<u>277,291</u>

During the year ended 31 December 2017, 60,000 awarded shares were granted to four independent non-executive directors of the Company (2016: 61,474 awarded shares were granted to four independent non-executive directors of the Company).

14 Accounts payable

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
0 - 30 days	38,420	20,815
31 - 60 days	3,030	2,740
61 - 90 days	2,050	1,495
Over 90 days	<u>6,585</u>	<u>2,363</u>
	<u>50,085</u>	<u>27,413</u>

15 Borrowings

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	76,326	57,549
Non-current portion of long-term RMB bank borrowings, unsecured (a)	4,459	—
Non-current portion of long-term HKD bank borrowings, unsecured (a)	834	—
Non-current portion of long-term RMB bank borrowings, secured (a)	<u>475</u>	<u>—</u>
	<u>82,094</u>	<u>57,549</u>
Included in current liabilities:		
HKD bank borrowings, unsecured (b)	14,293	—
USD bank borrowings, unsecured (b)	1,307	12,139
Current portion of long-term USD bank borrowings, unsecured (a)	66	139
Current portion of long-term RMB bank borrowings, unsecured (a)	<u>30</u>	<u>—</u>
	<u>15,696</u>	<u>12,278</u>
	<u>97,790</u>	<u>69,827</u>

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,691 million (2016: USD8,316 million), RMB4,964 million (2016: Nil) and HKD1,000 million (2016: Nil), respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.70% to 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% to 4.275% for RMB bank borrowings (31 December 2016: LIBOR plus 0.85% to 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings) per annum.
- (b) The aggregate principal amounts of short-term USD bank borrowings and short-term HKD bank borrowings were USD200 million (2016: USD1,750 million) and HKD17,133 million (2016: Nil), respectively. These short-term bank borrowings were carried at LIBOR/HIBOR plus 0.50% to 0.55% (2016: LIBOR plus 0.70% to 0.75%) per annum.

16 Notes payable

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	26,697	32,461
Non-current portion of long-term HKD notes payable	<u>2,666</u>	<u>3,743</u>
	<u>29,363</u>	<u>36,204</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	3,919	3,466
Current portion of long-term HKD notes payable	<u>833</u>	<u>—</u>
	<u>4,752</u>	<u>3,466</u>
	<u><u>34,115</u></u>	<u><u>39,670</u></u>

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD4,700 million (2016: USD5,200 million) and HKD4,200 million (2016: HKD4,200 million), respectively. The interest rate range of the notes payable is from 2.30% to 4.70% (2016: 2.00% to 4.70%) per annum.

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

17 Subsequent events

(a) Completion of USD5 billion Issue of Notes under the Programme

On 19 January 2018, the Company issued four tranches of senior notes under the Global Medium Term Note Programme (the “Programme”) with an aggregate principal amount of USD5 billion set out below.

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

The net proceeds from the issue of these four tranches of senior notes amounted to approximately USD4.981 billion after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issuance. All of the Notes are listed on the Stock Exchange.

(b) Investments in Wanda Commercial

In January 2018, the Group entered into a strategy investment agreement with Dalian Wanda Commercial Properties Co., Ltd, a commercial property company located in the PRC, to commit to acquire its approximately 4.12% equity interest at a consideration of approximately RMB10 billion.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2017.

Closure of Register of Members

(a) Entitlement to Attend and Vote at the 2018 AGM

The register of members will be closed from Friday, 11 May 2018 to Wednesday, 16 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2018 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 10 May 2018.

(b) Entitlement to the Proposed Final Dividend

The register of members will be closed from Wednesday, 23 May 2018 to Thursday, 24 May 2018, 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, 21 May 2018.

Employee and Remuneration Policies

As at 31 December 2017, the Group had 44,796 employees (2016: 38,775). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2017 was RMB34,866 million (2016: RMB23,433 million).

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2017. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Compliance with the Corporate Governance Code

Save as disclosed in the 2017 interim report and the corporate governance report in the 2016 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 2017, 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.

Publication of the Annual Results and Annual Report

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

APPRECIATION

On behalf of the Board, I would like to express our gratitude to all our staff and the management team for their commitment for excellence, strong teamwork and valuable contribution. I would also like to thank all our shareholders and stakeholders for their complete confidence in and support to our Group. Looking ahead, we will continue to enhance people's quality of life through our innovative products and services and to develop a healthy and balanced Internet ecosystem.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 21 March 2018

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

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

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

DEFINITION

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

Term	Definition
“2018 AGM”	the annual general meeting of the Company to be held on 16 May 2018 or any adjournment thereof
“AI”	artificial intelligence
“ARPU”	average revenue per user
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CFM”	Cross Fire Mobile
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“China Literature”	China Literature Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“CIT”	corporate income tax
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“CPC”	cost per click
“CRM”	customer relationship management
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share

“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong InterBank Offered Rate
“HKD”	the lawful currency of Hong Kong
“HoK”	Honour of Kings
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“Korea”	the Republic of Korea
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LoL”	League of Legends
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MOBA”	Multiplayer Online Battle Arena
“Netmarble”	Netmarble Games Corporation, a company incorporated under the laws of Korea and the shares of which are listed on the Korea Exchange
“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
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“R&D”	research and development
“RMB”	the lawful currency of the PRC
“ROI”	return on investment
“RPG”	role playing game
“Sea”	Sea Limited, a company headquartered in Singapore and listed on the New York Stock Exchange
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended
“Singapore”	the Republic of Singapore
“Sogou”	Sogou Inc., a company incorporated in the Cayman Islands and listed on the New York Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Funds”	charity funds established by the Group
“Tencent Music”	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands
“United States”	the United States of America

“USD”	the lawful currency of the United States
“VAS”	value-added services
“Yixin”	Yixin Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“ZhongAn Insurance”	ZhongAn Online P & C Insurance Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability whose H shares are listed on the Stock Exchange