Tencent 腾讯

Tencent Holdings Limited

Incorporated in the Cayman Islands with limited liability

騰訊控股有限公司

於開曼群島註冊成立的有限公司

(Stock Code 股份代號：700)

smart communication inspires

智慧溝通　靈感無限

2017 Annual Report

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker
Charles St Leger Searle

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

INVESTMENT COMMITTEE

Lau Chi Ping Martin *(Chairman)*
Ma Huateng
Charles St Leger Searle

NOMINATION COMMITTEE

Ma Huateng *(Chairman)*
Li Dong Sheng
Iain Ferguson Bruce
Ian Charles Stone
Charles St Leger Searle

REMUNERATION COMMITTEE

Ian Charles Stone *(Chairman)*
Li Dong Sheng
Jacobus Petrus (Koos) Bekker

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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

TENCENT GROUP HEAD OFFICE

Tencent Building
Kejizhongyi Avenue
Hi-tech Park
Nanshan District
Shenzhen, 518057
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29/F., Three Pacific Place
No. 1 Queen's Road East
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.tencent.com

STOCK CODE

700

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2013 RMB'Million	2014 RMB'Million	2015 RMB'Million	2016 RMB'Million	**2017 RMB'Million**
Revenues	60,437	78,932	102,863	151,938	**237,760**
Gross profit	32,659	48,059	61,232	84,499	**116,925**
Profit before income tax	19,281	29,013	36,216	51,640	**88,215**
Profit for the year	15,563	23,888	29,108	41,447	**72,471**
Profit attributable to equity holders of the Company	15,502	23,810	28,806	41,095	**71,510**
Total comprehensive income for the year	18,376	21,975	44,723	48,617	**79,061**
Total comprehensive income attributable to equity holders of the Company	18,327	21,891	44,416	48,194	**78,218**
Non-GAAP profit attributable to equity holders of the Company*	17,008	24,737	32,410	45,420	**65,126**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				
	2013 RMB'Million	2014 RMB'Million	2015 RMB'Million	2016 RMB'Million	**2017 RMB'Million**
Assets					
Non-current assets	53,549	95,845	151,440	246,745	**376,226**
Current assets	53,686	75,321	155,378	149,154	**178,446**
Total assets	107,235	171,166	306,818	395,899	**554,672**
Equity and liabilities					
Equity attributable to equity holders of the Company	57,945	80,013	120,035	174,624	**256,074**
Non-controlling interests	518	2,111	2,065	11,623	**21,019**
Total equity	58,463	82,124	122,100	186,247	**277,093**
Non-current liabilities	15,505	39,007	60,312	108,455	**125,839**
Current liabilities	33,267	50,035	124,406	101,197	**151,740**
Total liabilities	48,772	89,042	184,718	209,652	**277,579**
Total equity and liabilities	107,235	171,166	306,818	395,899	**554,672**

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

Chairman's Statement

Ma Huateng
Chairman

I am pleased to present our annual report for the year ended 31 December 2017 to the shareholders.

RESULTS

The Group's audited profit attributable to equity holders of the Company for the year ended 31 December 2017 was RMB71,510 million, an increase of 74% compared with the results for the previous year. Basic and diluted EPS for the year ended 31 December 2017 were RMB7.598 and RMB7.499, respectively.

The Group's non-GAAP profit attributable to equity holders of the Company for the year ended 31 December 2017 was RMB65,126 million, an increase of 43% compared with the results for the previous year. Non-GAAP basic and diluted EPS for the year ended 31 December 2017 were RMB6.920 and RMB6.830, respectively.

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
	(in millions, unless specified)				
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%

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.

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.

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.

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.

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.

Ma Huateng
Chairman

Hong Kong, 21 March 2018

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	**(120,835)**	(67,439)
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	**(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	**(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
Non-GAAP profit attributable to equity holders of the Company	**65,126**	45,420

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	**237,760**	**100%**	151,938	100%

— 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	**33,860**	**78%**	14,421	84%
Total cost of revenues	**120,835**		67,439	

— 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 2017	31 December 2016
	(RMB in millions)	
Revenues	**66,392**	43,864
Cost of revenues	**(34,897)**	(20,238)
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	**(8,811)**	(6,909)
Operating profit	**25,724**	13,930
Finance costs, net	**(859)**	(483)
Share of losses of associates and joint ventures	**(120)**	(522)
Profit before income tax	**24,745**	12,925
Income tax expense	**(3,123)**	(2,402)
Profit for the period	**21,622**	10,523
Attributable to:		
Equity holders of the Company	**20,797**	10,529
Non-controlling interests	**825**	(6)
	21,622	10,523
Non-GAAP profit attributable to equity holders of the Company	**17,454**	12,332

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	
	Amount	**% of total revenues**	Amount	% of total 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	**66,392**	**100%**	43,864	100%

— 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 segment revenues**	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	**16,268**	**41%**	10,734	37%
Online advertising	**7,759**	**63%**	4,424	53%
Others	**10,870**	**77%**	5,080	80%
Total cost of revenues	**34,897**		20,238	

— 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 2017	30 September 2017
	(RMB in millions)	
Revenues	**66,392**	65,210
Cost of revenues	**(34,897)**	(33,529)
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	**(8,811)**	(9,058)
Operating profit	**25,724**	22,746
Finance costs, net	**(859)**	(524)
Share of (loss)/profit of associates and joint ventures	**(120)**	818
Profit before income tax	**24,745**	23,040
Income tax expense	**(3,123)**	(4,993)
Profit for the period	**21,622**	18,047
Attributable to:		
Equity holders of the Company	**20,797**	18,006
Non-controlling interests	**825**	41
	21,622	18,047
Non-GAAP profit attributable to equity holders of the Company	**17,454**	17,070

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 Three months ended			Year ended	
	31 December 2017	30 September 2017	31 December 2016	**31 December 2017**	31 December 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				
	Three months ended			Year ended	
	31 December 2017	30 September 2017	31 December 2016	**31 December 2017**	31 December 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	**25,127**	25,632	18,495	**95,861**	66,863

NON-GAAP FINANCIAL MEASURES

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain 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 (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	**25,724**	**1,874**	**(6,281)**	**112**	**424**	**21,853**
Profit for the period	**21,622**	**2,146**	**(6,229)**	**474**	**358**	**18,371**
Profit attributable to equity holders	**20,797**	**2,084**	**(6,189)**	**442**	**320**	**17,454**
EPS (RMB per share)						
– basic	**2.206**					**1.852**
– diluted	**2.177**					**1.827**
Operating margin	**39%**					**33%**
Net margin	**33%**					**28%**

	Unaudited three months ended 30 September 2017					
		Adjustments				
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	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 (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
		(RMB in millions, unless specified)				
Operating profit	13,930	1,754	(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 (a)**	**Net (gains)/losses from investee companies (b)**	**Amortisation of intangible assets (c)**	**Impairment provision (d)**	**Non-GAAP**
		(RMB in millions, unless specified)				
Operating profit	**90,302**	**6,253**	**(17,816)**	**490**	**2,794**	**82,023**
Profit for the year	**72,471**	**7,080**	**(18,112)**	**1,841**	**3,124**	**66,404**
Profit attributable to equity holders	**71,510**	**6,875**	**(18,051)**	**1,706**	**3,086**	**65,126**
EPS (RMB per share)						
– basic	**7.598**					**6.920**
– diluted	**7.499**					**6.830**
Operating margin	**38%**					**34%**
Net margin	**30%**					**28%**

	Year ended 31 December 2016					
		Adjustments				
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	Non-GAAP
	(RMB in millions, unless specified)					
Operating profit	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	**42,540**	63,454
	148,237	150,797
Borrowings	**(97,790)**	(97,290)
Notes payable	**(34,115)**	(34,645)
Net cash	**16,332**	18,862

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.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Note 45 to the consolidated financial statements.

The analysis of the Group's revenues and contribution to results by business segments and the Group's revenues by geographical area of operations are set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 122 of this annual report.

The directors have recommended the payment of a final dividend of HKD0.88 per share for the year ended 31 December 2017. The dividend is expected to be payable on 1 June 2018 to the shareholders whose names appear on the register of members of the Company on 24 May 2018. The total dividend for the year under review is HKD0.88 per share.

RESERVES

The Company may pay dividends out of share premium, retained earnings and any other reserves provided that immediately following the payment of such dividends the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2017, the Company had distributable reserves amounting to RMB26,074 million (2016: RMB18,345 million).

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 126 to 127, Note 31, Note 32 and Note 44 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

BUSINESS REVIEW AND DIVIDEND

Details of the business review of the Group and the proposed dividend for the year ended 31 December 2017 are set out under the "Chairman's Statement".

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 31 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2017 are set out in Note 45 to the consolidated financial statements.

BORROWINGS

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

DONATION

The donation made by the Group to Tencent Charity Funds in the year was RMB820 million.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group is set out on page 3 of this annual report.

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

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

SHARE OPTION SCHEMES

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

As at 31 December 2017, there were a total of 16,500,000 outstanding share options granted to a director of the Company, details of which are as follows:

		Number of share options					
Name of director	**Date of grant**	**As at 1 January 2017**	**Granted during the year**	**Exercised during the year**	**As at 31 December 2017**	**Exercise price HKD**	**Exercise period**
Lau Chi Ping Martin	24 March 2010	2,500,000	–	–	2,500,000	31.70	24 March 2015 to 23 March 2020 (Note 1)
	25 March 2014	5,000,000	–	–	5,000,000	114.52	25 March 2015 to 24 March 2021 (Note 2)
	21 March 2016	3,750,000	–	–	3,750,000	158.10	21 March 2017 to 20 March 2023 (Note 3)
	24 March 2017	–	5,250,000 (Note 4)	–	5,250,000	225.44	24 March 2018 to 23 March 2024 (Note 3)
	Total:	11,250,000	5,250,000	–	16,500,000		

Note:

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

2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.

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

4. The closing price immediately before the date on which the options were granted on 24 March 2017 was HKD223.

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

Details of movements of share options granted to employees of the Group (apart from a director of the Company) during the year ended 31 December 2017 are as follows:

	Number of share options						
Date of grant	**As at 1 January 2017**	**Granted during the year**	**Exercised during the year** (Note 13)	**Lapsed during the year**	**As at 31 December 2017**	**Exercise price HKD**	**Exercise period**
24 Mar 2010	25,000	–	25,000	–	–	31.70	24 Mar 2012 to 23 Mar 2017 (Note 1)
5 Jul 2010	56,750	–	56,750	–	–	26.08	5 Jul 2011 to 4 Jul 2017 (Note 2)
5 Jul 2010	1,057,575	–	1,057,575	–	–	26.08	5 Jul 2012 to 4 Jul 2017 (Note 1)
5 Jul 2010	1,363,800	–	1,352,550	11,250	–	26.08	5 Jul 2013 to 4 Jul 2017 (Note 3)
24 Mar 2011	798,750	–	152,500	–	646,250	38.88	24 Mar 2014 to 23 Mar 2018 (Note 3)
24 Mar 2011	250,000	–	250,000	–	–	38.88	24 Mar 2015 to 23 Mar 2018 (Note 4)
15 Aug 2011	77,500	–	18,700	–	58,800	37.80	15 Aug 2012 to 14 Aug 2018 (Note 2)
15 Aug 2011	620,700	–	271,825	6,750	342,125	37.80	15 Aug 2013 to 14 Aug 2018 (Note 1)
15 Aug 2011	50,000	–	25,000	–	25,000	37.80	15 Aug 2014 to 14 Aug 2018 (Note 3)
13 Sep 2012	705,250	–	135,000	9,375	560,875	49.76	13 Sep 2013 to 12 Sep 2019 (Note 2)
25 Mar 2014	2,562,500	–	–	–	2,562,500	114.52	25 Mar 2015 to 24 Mar 2021 (Note 5)
25 Mar 2014	3,725,000	–	155,000	–	3,570,000	114.52	25 Mar 2015 to 24 Mar 2021 (Note 2)
22 May 2014	62,500	–	–	–	62,500	112.30	22 May 2015 to 21 May 2021 (Note 5)

Date of grant	As at 1 January 2017	Granted during the year	Exercised during the year (Note 13)	Lapsed during the year	As at 31 December 2017	Exercise price HKD	Exercise period
	Number of share options						
10 July 2014	1,540,128	–	355,272	46,851	1,138,005	124.30	10 Jul 2015 to 9 Jul 2021 (Note 6)
12 Dec 2014	80,650	–	–	–	80,650	116.40	12 Dec 2016 to 11 Dec 2021 (Note 7)
2 Apr 2015	525,000	–	–	–	525,000	149.80	2 Apr 2016 to 1 Apr 2022 (Note 6)
10 Jul 2015	903,263	–	130,999	32,460	739,804	148.90	10 Jul 2016 to 9 Jul 2022 (Note 6)
21 Mar 2016	6,675,000	–	–	–	6,675,000	158.10	21 Mar 2017 to 20 Mar 2023 (Note 6)
6 Jul 2016	1,418,070	–	116,641	18,120	1,283,309	174.86	6 Jul 2017 to 5 Jul 2023 (Note 6)
24 Mar 2017	–	1,417,930	–	–	1,417,930	225.44	24 Mar 2018 to 23 Mar 2024 (Notes 8 and 10)
24 Mar 2017	–	21,831,440	–	8,940	21,822,500	225.44	24 Mar 2018 to 23 Mar 2024 (Notes 6 and 10)
24 Mar 2017	–	26,845	–	26,845	–	225.44	24 Mar 2019 to 23 Mar 2024 (Notes 7 and 10)
10 Jul 2017	–	13,405	–	–	13,405	272.36	10 Jul 2018 to 9 Jul 2024 (Notes 5 and 11)
10 Jul 2017	–	9,083,270	–	63,175	9,020,095	272.36	10 Jul 2018 to 9 Jul 2024 (Notes 6 and 11)
10 Jul 2017	–	25,340	–	–	25,340	272.36	10 Jul 2019 to 9 Jul 2024 (Notes 7 and 11)
10 Jul 2017	–	7,455	–	–	7,455	272.36	10 Jul 2020 to 9 Jul 2024 (Notes 9 and 11)
23 Nov 2017	–	89,565	–	–	89,565	419.60	23 Nov 2018 to 22 Nov 2024 (Notes 5 and 12)
Total:	22,497,436	32,495,250	4,102,812	223,766	50,666,108		

Note:

1. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 2 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.

2. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 1 year after the grant date, and each 20% of the total options will become exercisable in each subsequent year.

3. For options granted with exercisable date determined based on the grant date of options, the first 20% of the total options can be exercised 3 years after the grant date, and each 20% of the total options will become exercisable in each subsequent year.

4. For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 4 years after the grant date, and each 33.33% of the total options will become exercisable in each subsequent year.

5. For options granted with exercisable date determined based on the grant date of options, the first 33.33% (one-third) of the total options can be exercised 1 year after the grant date, and each 33.33% of the total options will become exercisable in each subsequent year.

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

7. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 2 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.

8. For options granted with exercisable date determined based on the grant date of options, the first 50% of the total options can be exercised 1 year after the grant date, and the remaining 50% of the total options will become exercisable in the subsequent year.

9. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised 3 years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.

10. The closing price immediately before the date on which the options were granted on 24 March 2017 was HKD223.

11. The closing price immediately before the date on which the options were granted on 10 July 2017 was HKD269.

12. The closing price immediately before the date on which the options were granted on 23 November 2017 was HKD426.8.

13. The weighted average closing price immediately before the date on which the options were exercised was HKD285.5.

Details of movements of share options granted to employees and certain external consultants under the share option schemes adopted by Tencent Music, a subsidiary of the Group, during the year ended 31 December 2017 are as follows:

	Number of share options						
Date of grant	As at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2017	Exercise price USD	Exercise period
Employees							
1 Mar 2015	12,432,336	–	–	508,200	11,924,136	0.000083	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	10,441,960	–	–	502,760	9,939,200	0.29	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	26,880,000	–	26,880,000	–	–	0.29	1 Mar 2016 to 28 Feb 2025 (Note 2)
1 Mar 2015	7,482,654	–	7,482,654	–	–	0.35	1 Mar 2016 to 28 Feb 2025 (Note 2)
30 Mar 2015	3,869,842	–	–	425,800	3,444,042	0.29	30 Mar 2016 to 29 Mar 2025 (Note 1)
1 Jul 2015	200,000	–	–	–	200,000	0.29	1 Jul 2016 to 30 Jun 2025 (Note 1)
1 Jul 2015	3,600,000	–	3,600,000	–	–	0.29	1 Jul 2016 to 30 Jun 2025 (Note 2)
1 Oct 2015	908,800	–	–	128,200	780,600	0.29	1 Oct 2016 to 30 Sep 2025 (Note 1)
31 Dec 2015	3,448,491	–	–	515,210	2,933,281	0.29	31 Dec 2016 to 30 Dec 2025 (Note 1)
31 Dec 2015	345,300	–	–	133,300	212,000	0.000083	31 Dec 2016 to 30 Dec 2025 (Note 1)
1 Mar 2016	875,000	–	–	114,000	761,000	0.29	1 Mar 2017 to 28 Feb 2026 (Note 1)
1 Mar 2016	500,000	–	500,000	–	–	0.29	1 Mar 2017 to 28 Feb 2026 (Note 2)

Date of grant	As at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2017	Exercise price USD	Exercise period
	Number of share options						
31 Mar 2016	390,000	–	–	49,500	340,500	0.29	31 Mar 2017 to 30 Mar 2026 (Note 1)
1 Jun 2016	800,000	–	800,000	–	–	0.000083	1 Jun 2017 to 31 May 2026 (Note 2)
1 Jun 2016	6,521,513	–	–	–	6,521,513	0.29	1 Jun 2017 to 31 May 2026 (Note 3)
30 Jun 2016	600,000	–	–	–	600,000	0.000083	30 Jun 2017 to 29 Jun 2026 (Note 1)
30 Jun 2016	12,430,852	–	–	1,566,950	10,863,902	0.29	30 Jun 2017 to 29 Jun 2026 (Note 1)
16 Jun 2017	–	2,468,764	–	–	2,468,764	2.53	5 Jul 2017 to 15 Jun 2027 (Note 4)
16 Jun 2017	–	9,565,716	–	–	9,565,716	2.53	31 Mar 2018 to 15 Jun 2027 (Note 4)
31 Aug 2017	–	8,055,153	–	388,350	7,666,803	0.29	31 Aug 2018 to 30 Aug 2027 (Note 1)
20 Dec 2017	–	7,260,103	–	–	7,260,103	2.53	20 Dec 2018 to 19 Dec 2027 (Note 4)
Sub-total:	91,726,748	27,349,736	39,262,654	4,332,270	75,481,560		
External consultants							
1 Mar 2015	2,348,099	–	–	–	2,348,099	0.000083	1 Mar 2016 to 28 Feb 2025 (Note 1)
1 Mar 2015	2,630,000	–	–	–	2,630,000	0.29	1 Mar 2016 to 28 Feb 2025 (Note 1)
Sub-total:	4,978,099	–	–	–	4,978,099		
Total:	96,704,847	27,349,736	39,262,654	4,332,270	80,459,659		

Note:

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

2. The first 25% of the total options can be exercised 1 year after the commencement date as specified in the grant letter, and each 6.25% of the total options will become exercisable in each subsequent quarter. Subject to the satisfaction of a certain condition, the entire vesting schedule for the remaining options will be accelerated by 1 year or the remaining options will become immediately vested.

3. All the options can be exercised 1 year after the commencement date as specified in the relevant grant letter if a certain condition is satisfied.

4. Subject to the satisfaction of certain conditions, the first 25% of the total options can be exercised on the dates as specified in the relevant grant letters, and each 25% of the total options will become exercisable in each subsequent year.

SUMMARY OF THE SHARE OPTION SCHEMES

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

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III	Post-IPO Option Scheme IV
3.	Maximum number of shares	As at 7 June 2004, options to subscribe for an aggregate of 72,386,370 shares were outstanding. No further option could be granted under the Pre-IPO Option Scheme.	As at 16 May 2007, options to subscribe for an aggregate of 60,413,683 shares were outstanding. No further option could be granted under the Post-IPO Option Scheme I.	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme II shall be 444,518,270 shares (after the effect of the Share Subdivision), 5% of the relevant class of securities of the Company in issue as at 16 May 2007. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme II and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note).	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme III shall be 180,093,330 shares (after the effect of the Share Subdivision), 2% of the relevant class of securities of the Company in issue as at 13 May 2009. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme III and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note).	The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme IV shall be 379,099,339 shares, 4% of the relevant class of securities of the Company in issue as at 17 May 2017. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme IV and any other share option schemes, including the Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III, must not in aggregate exceed 30% of the issued shares of the Company from time to time (Note).

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

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III	Post-IPO Option Scheme IV
6.	Acceptance of offer	Options granted must be accepted within 15 days of the date of grant, upon payment of RMB1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.	Options granted must be accepted within 28 days of the date of grant, upon payment of HKD1 per grant.
7.	Exercise price	Price shall be determined by the Board.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.	The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

	Details	Pre-IPO Option Scheme	Post-IPO Option Scheme I	Post-IPO Option Scheme II	Post-IPO Option Scheme III	Post-IPO Option Scheme IV
8.	Remaining life of the scheme	It expired on 31 December 2011.	It expired on 23 March 2014.	It expired on 16 May 2017.	It shall be valid and effective for a period of ten years commencing on 13 May 2009.	It shall be valid and effective for a period of ten years commencing on 17 May 2017.

Note:

The total number of shares available for issue under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV are 200,551,970, 175,093,330 and 369,880,304 respectively, which represent approximately 2.11%, 1.84% and 3.89% respectively of the issued shares of the Company as at the date of the annual report.

MOVEMENTS IN THE SHARE OPTIONS

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

VALUATION OF SHARE OPTIONS

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

SHARE AWARD SCHEMES

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

		2007 Share Award Scheme	2013 Share Award Scheme
1.	Purpose	To recognise the contributions and to attract, motivate and retain eligible participants (including any director) of the Group	
2.	Duration and Termination	It shall be valid and effective for a period of 15 years from the Adoption Date I.	It shall be valid and effective unless and until being terminated on the earlier of: (i) the 15th anniversary date of the Adoption Date II; and (ii) such date of early termination as determined by the Board provided that such termination does not affect any subsisting rights of any Selected Participant.
3.	Maximum number of shares that can be awarded	2% of the issued shares of the Company as at the Adoption Date I (i.e. 178,776,160 shares (after the effect of the Share Subdivision))	3% of the issued shares of the Company as at the Adoption Date II (i.e. 278,937,260 shares (after the effect of the Share Subdivision))
4.	Maximum entitlement of each participant	1% of the issued shares of the Company as at the Adoption Date I (i.e. 89,388,080 shares (after the effect of the Share Subdivision))	1% of the issued shares of the Company as at the Adoption Date II (i.e. 92,979,085 shares (after the effect of the Share Subdivision))
5.	Operation	The Board shall select the Eligible Person(s) and determine the number of shares to be awarded. The Board shall, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources into the Account I or to the Trustee to be held on trust for the relevant Selected Participant for the purchase and/or subscription of the Awarded Shares as soon as practicable after the Reference Date.	The Board may, from time to time, at its absolute discretion select any Eligible Person to be a Selected Participant and grant to such Selected Participant Awarded Shares. The Board may at any time at its discretion, in respect of each Selected Participant, cause to be paid the relevant amount from the Company's resources or any subsidiary's resources into the Account II for the purchase and/or subscription of Awarded Shares as soon as practicable after the Grant Date.

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

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

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

During the year, a total of 19,071,975 Awarded Shares were granted under the 2013 Share Award Scheme and out of which, 60,000 Awarded Shares were granted to the independent non-executive directors of the Company. Details of the movements in the Share Award Schemes during the year are set out in Note 33 to the consolidated financial statements.

During the year, a total of 21,973,407 shares were issued to option holders who exercised their share options granted under the Post-IPO Option Scheme II, the Post-IPO Option Scheme III and the Post-IPO Option Scheme IV, and pursuant to the Share Award Schemes.

As at 31 December 2017, there were a total of 193,606 outstanding Awarded Shares granted to the directors of the Company, details of which are as follows:

		Number of Awarded Shares				
Name of director	**Date of grant**	**As at 1 January 2017**	**Granted during the year**	**Vested during the year**	**As at 31 December 2017**	**Vesting period**
Iain Ferguson Bruce	24 March 2014	30,000	–	10,000	20,000	24 March 2015 to 24 March 2019
	2 April 2015	22,500	–	7,500	15,000	2 April 2016 to 2 April 2019
	21 March 2016	20,000	–	5,000	15,000	21 March 2017 to 21 March 2020
	24 March 2017	–	20,000	–	20,000	24 March 2018 to 24 March 2021
	Total:	72,500	20,000	22,500	70,000	
Ian Charles Stone	24 March 2014	30,000	–	10,000	20,000	24 March 2015 to 24 March 2019
	2 April 2015	22,500	–	7,500	15,000	2 April 2016 to 2 April 2019
	21 March 2016	20,000	–	5,000	15,000	21 March 2017 to 21 March 2020
	24 March 2017	–	20,000	–	20,000	24 March 2018 to 24 March 2021
	Total:	72,500	20,000	22,500	70,000	

Name of director	Date of grant	As at 1 January 2017	Granted during the year	Vested during the year	As at 31 December 2017	Vesting period
		Number of Awarded Shares				
Li Dong Sheng	24 March 2014	15,000	–	5,000	10,000	24 March 2015 to 24 March 2019
	2 April 2015	11,250	–	3,750	7,500	2 April 2016 to 2 April 2019
	21 March 2016	10,000	–	2,500	7,500	21 March 2017 to 21 March 2020
	24 March 2017	–	10,000	–	10,000	24 March 2018 to 24 March 2021
	Total:	36,250	10,000	11,250	35,000	
Yang Siu Shun	6 July 2016	11,474	–	2,868	8,606	6 July 2017 to 6 July 2020
	24 March 2017	–	10,000	–	10,000	24 March 2018 to 24 March 2021
	Total:	11,474	10,000	2,868	18,606	
	Grand Total:	192,724	60,000	59,118	193,606	

Directors' Report

DIRECTORS AND SENIOR MANAGEMENT

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

Executive Directors

Ma Huateng *(Chairman)*
Lau Chi Ping Martin

Non-Executive Directors

Jacobus Petrus (Koos) Bekker
Charles St Leger Searle

Independent Non-Executive Directors

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

In accordance with Article 87 of the Articles of Association, Mr Li Dong Sheng and Mr Iain Ferguson Bruce will retire at the 2018 AGM and, being eligible, will offer themselves for re-election.

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

BIOGRAPHICAL DETAILS AND OTHER INFORMATION OF DIRECTORS

Ma Huateng, age 46, is an executive director, Chairman of the Board and Chief Executive Officer of the Company. Mr Ma has overall responsibilities for strategic planning and positioning and management of the Group. Mr Ma is one of the core founders and has been employed by the Group since 1999. Prior to his current employment, Mr Ma was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a supplier of telecommunications services and products in China. Mr Ma is a deputy to the 13th National People's Congress. Mr Ma has a Bachelor of Science degree specialising in Computer and its Application obtained in 1993 from Shenzhen University and more than 24 years of experience in the telecommunications and Internet industries. He is a director of Advance Data Services Limited, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr Ma also serves as a director of certain subsidiaries of the Company.

Lau Chi Ping Martin, age 44, is an executive director and President of the Company. Mr Lau joined the Company in 2005 as the Chief Strategy and Investment Officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, Mr Lau was promoted as President of the Company to manage the day-to-day operation of the Company. In 2007, he was appointed as an executive director of the Company. Prior to joining the Company, Mr Lau was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the Chief Operating Officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr Lau received a Bachelor of Science degree in Electrical Engineering from the University of Michigan, a Master of Science degree in Electrical Engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University. On 28 July 2011, Mr Lau was appointed as a non-executive director of Kingsoft Corporation Limited, an Internet based software developer, distributor and software service provider listed in Hong Kong. On 10 March 2014, Mr Lau was appointed as a director of JD.com, Inc., an online direct sales company in China, which has been listed on NASDAQ since May 2014. On 31 March 2014, Mr Lau was appointed as a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, which has been listed on New York Stock Exchange since April 2014. On 29 December 2017, Mr Lau was appointed as a director of Vipshop Holdings Limited, an online discount retailer company listed on the New York Stock Exchange. Mr Lau also serves as a director/corporate representative of certain subsidiaries of the Company.

Jacobus Petrus (Koos) Bekker, age 65, has been a non-executive director since November 2012. Koos led the founding team of the M-Net/MultiChoice pay-television business in 1985. He was also a founder director of MTN in cellular telephony. Koos headed the MIH group in its international and Internet expansions until 1997, when he became chief executive of Naspers. He serves on the boards of other companies within the group and associates, as well as other bodies. In April 2015, he became non-executive chair. Academic qualifications include BA Hons and honorary doctorate in commerce (Stellenbosch University), LLB (University of the Witwatersrand) and MBA (Columbia University, New York).

Charles St Leger Searle, age 54, has been a non-executive director since June 2001. Mr Searle is currently the Chief Executive Officer of Naspers Internet Listed Assets. He serves on the board of a number of companies associated with the Naspers Group, including Mail.ru Group Limited that is listed on the London Stock Exchange and MakeMyTrip Limited that is listed on NASDAQ. Prior to joining the Naspers Group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia and New Zealand. Mr Searle has more than 24 years of international experience in the telecommunications and Internet industries. Mr Searle also serves as a director of certain subsidiaries of the Company.

Li Dong Sheng, age 60, has been an independent non-executive director since April 2004. Mr Li is the Chairman and Chief Executive Officer of TCL Corporation, which produces consumer electronic products. Mr Li is a non-executive director of Fantasia Holdings Group Co., Limited, a leading property developer and property related service provider in China that is listed on the Stock Exchange. Mr Li is also an independent director of Legrand, the global specialist in electrical and digital building infrastructures, shares of which are listed on the New York Stock Exchange Euronext. Mr Li graduated from South China University of Technology in 1982 with a Bachelor degree in radio technology and has more than 23 years of experience in the information technology field. Mr Li is the Chairman of TCL Communication Technology Holdings Limited, which was delisted for privatisation from the Stock Exchange on 30 September 2016. Mr Li was the Chairman and executive director of the Hong Kong listed TCL Multimedia Technology Holdings Limited up to 22 September 2017.

Iain Ferguson Bruce, age 77, has been an independent non-executive director since April 2004. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 53 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute). Mr Bruce is an independent non-executive director of MSIG Insurance (Hong Kong) Limited. Mr Bruce is currently an independent non-executive director of Goodbaby International Holdings Limited, a manufacturer of durable juvenile products, The 13 Holdings Limited (formerly known as Louis XIII Holdings Limited), a construction, engineering services and hotel development company, and Wing On Company International Limited, a department store operating and real property investment company; all of these companies are publicly listed on the Stock Exchange. Mr Bruce is also an independent non-executive director of Yingli Green Energy Holding Company Limited, a China-based vertically integrated photovoltaic product manufacturer that is listed on the New York Stock Exchange. Mr Bruce was an independent non-executive director of Vitasoy International Holdings Limited, a beverage manufacturing company, up to 4 September 2014, and of Sands China Ltd., an operator of integrated resorts and casinos, up to 11 March 2016, both of these companies are publicly listed on the Stock Exchange. Mr Bruce was also a non-executive director of Noble Group Limited, a commodity trading company that is publicly listed on The Singapore Exchange Securities Trading Limited, up to 11 May 2017, and was also an independent non-executive director of Citibank (Hong Kong) Limited, up to 2 August 2017.

Ian Charles Stone, age 67, has been an independent non-executive director since April 2004. Mr Stone is currently an independent advisor on Technology, Media and Telecoms after retiring from PCCW in Hong Kong in 2011. His career in the last 28 years has been primarily in leading mobile telecoms businesses, and new wireless and Internet technology, during which time he held senior roles in PCCW, SmarTone, First Pacific, Hong Kong Telecom and CSL, as Chief Executive or at Director level, primarily in Hong Kong, and also in London and Manila. Since 2011, Mr Stone has provided telecoms advisory services to telecom companies and investors in Hong Kong, China, South East Asia and the Middle East. Mr Stone has more than 47 years of experience in the telecom and mobile industries. Mr Stone is a fellow member of The Hong Kong Institute of Directors. Mr Stone also serves as an independent non-executive director of a subsidiary of the Company.

Yang Siu Shun, age 62, has been an independent non-executive director since July 2016. Mr Yang is currently serving as a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, a Justice of the Peace in Hong Kong, a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a Steward of the Hong Kong Jockey Club, the Deputy Chairman of the Council of the Open University of Hong Kong, a Board Member and the Audit Committee Chairman of the Hang Seng Management College and an independent non-executive director of Industrial and Commercial Bank of China Limited which is publicly listed on the Stock Exchange and the Shanghai Stock Exchange. Mr Yang retired from PricewaterhouseCoopers ("PwC") on 30 June 2015. Before his retirement, he served as the Chairman and Senior Partner of PwC Hong Kong, the Executive Chairman and Senior Partner of PwC China and Hong Kong, one of the five members of the Global Network Leadership Team of PwC and the PwC Asia Pacific Chairman. Mr Yang graduated from the London School of Economics and Political Science in 1978. Mr Yang is a Fellow Member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Xu Chenye, age 46, Chief Information Officer, oversees the strategic planning and development for the website properties and communities, customer relations and public relations of the Company. Mr Xu is one of the core founders and has been employed by the Group since 1999. Prior to that, Mr Xu had experiences in software system design, network administration as well as marketing and sales management in his previous position at Shenzhen Data Telecommunications Bureau. Mr Xu received a Bachelor of Science degree in Computer Science from Shenzhen University in 1993 and a Master of Science degree in Computer Science from Nanjing University in 1996. Mr Xu currently serves as a director or officer of certain subsidiaries of the Company.

Ren Yuxin, age 42, Chief Operating Officer and President of Interactive Entertainment Group, Mobile Internet Group and Online Media Group, joined the Company in 2000 and had served as General Manager for the Value-Added Services Development Division and General Manager for Interactive Entertainment Business Division. Since September 2005, Mr Ren has been responsible for the research and development, operations, marketing and sales of gaming products for the Interactive Entertainment Business. Since May 2012, Mr Ren has been appointed as Chief Operating Officer and is now in charge of the overall operation of the Interactive Entertainment Group, Mobile Internet Group and Social Network Group. He is also in charge of the operation of Online Media Group starting from 24 March 2017. Prior to joining the Company, Mr Ren has worked in Huawei Technologies Co., Ltd. Mr Ren received a Bachelor of Science degree in Computer Science and Engineering from the University of Electronic Science and Technology of China in 1998 and an EMBA degree from China Europe International Business School (CEIBS) in 2008. Mr Ren currently serves as a director or officer of certain subsidiaries of the Company.

James Gordon Mitchell, age 44, Chief Strategy Officer and Senior Executive Vice President, joined the Company in 2011. He is responsible for various functions, including the Company's strategic planning and implementation, investor relationships, and mergers, acquisitions and investment activity. Prior to joining the Company, Mr Mitchell had worked in investment banking for 16 years. Most recently, Mr Mitchell was a managing director at Goldman Sachs in New York, leading the bank's Communications, Media and Entertainment research team, which analysed Internet, entertainment and media companies globally. Mr Mitchell received a degree from Oxford University and holds a Chartered Financial Analyst Certification. Mr Mitchell currently serves as a director of certain subsidiaries of the Company.

Lau Seng Yee, age 51, Senior Executive Vice President and Chairman of Tencent Advertising, Group Marketing and Global Branding, joined the Company in 2006. Mr Lau serves as Chairman of Tencent Advertising, Group Marketing and Global Branding starting from 24 March 2017 and is responsible for overseeing the Company's Advertising, Group Marketing and Global Branding businesses as well as developing international strategic partnership relationship. Before that, he was in charge of Online Media Group. Mr Lau is a seasoned professional in the media industry with a rare 23 years of on-ground China market experience. In 2007, Mr Lau sat in the advisory board for ad:tech, the globally renowned organisation for Online Marketing. Mr Lau held the post of Vice President of China Advertising Association since 2007. Mr Lau was appointed as the Adjunct Professor of School of Journalism and Communication by Xiamen University in 2010 and also by Fudan University in 2014. Prior to joining the Company, Mr Lau was the Managing Partner of Publicis China and Chief Executive Officer for BBDO China, as well as a few management positions in other multinationals. Mr Lau received an EMBA degree from Rutgers State University of New Jersey, USA. He also completed the Advanced Marketing Management program, and the Advanced Management Program (AMP) in Harvard Business School. In 2011, Mr Lau was honoured by New York based AdAge publication as one of "The World's 21 Most Influential People in Marketing and Media Industry, 2009-2010". In 2015, he was named as Global Media Person of the year award by Cannes Lions International Festival of Creativity. Mr Lau currently sits as a board member in the Asia Pacific Advisory Board of Harvard Business School.

Tong Tao Sang, age 44, Senior Executive Vice President, President of Social Network Group and Chairman of Tencent Music, joined the Company in 2005. Mr Tong started as a technical architect, and led the product development of the social network platform, Qzone. He drove the open platform initiative of Qzone, which led to the development of the performance advertising business and the cloud services. Since May 2012, Mr Tong has been responsible for the QQ messaging and Qzone social networking platforms, the VIP subscriptions business, QQ Music and the Tencent Cloud services. Prior to joining the Company, Mr Tong worked for Sendmail, Inc. on managing the product development of operator-scale messaging systems. Mr Tong also worked for Oracle on the development and testing of Oracle Server and Oracle Applications. Mr Tong received a Bachelor of Science degree in Computer Engineering from University of Michigan, Ann Arbor in 1994 and a Master of Science degree in Electrical Engineering from Stanford University in 1997. Mr Tong currently serves as a director of certain subsidiaries of the Company.

Zhang Xiaolong, age 48, Senior Executive Vice President and President of Weixin Group, joined the Company in March 2005 and served as the General Manager for the Guangzhou R&D Division and led the QQ Mail team to be the top mail service provider in China. Later he was promoted to Corporate Vice President and since September 2012, Mr Zhang has been appointed as Senior Vice President in charge of the product and team management of Weixin/WeChat and QQ Mail. He is also responsible for the management and review of major innovation projects. In May 2014, Mr Zhang was promoted to Senior Executive Vice President, in charge of the Weixin Group. Prior to joining the Company, Mr Zhang developed Foxmail independently in 1997 as the first generation of Internet software developer in China. He joined Boda China as Corporate Vice President in 2000, responsible for corporate mail developing. Mr Zhang received his Master's degree in Telecommunications from Huazhong University of Science and Technology in 1994.

Lu Shan, age 43, Senior Executive Vice President and President of Technology and Engineering Group, joined the Company in 2000 and had served as General Manager for IM Product Divisions, Vice President for Platform Research and Development System and Senior Vice President for Operations Platform System. Since March 2008, Mr Lu has been in charge of management of the Operations Platform System of the Company. Since May 2012, Mr Lu has been in charge of management of Technical Engineering Group. Prior to joining the Company, he worked for Shenzhen Liming Network Systems Limited. Mr Lu received a Bachelor of Science degree in Computer Science and Technology from University of Science and Technology of China (USTC) in 1998. Mr Lu currently serves as a director or officer of certain subsidiaries of the Company.

David A M Wallerstein, age 43, Chief eXploration Officer and Senior Executive Vice President, joined the Company in 2001. He drives the Company's active participation in emerging technologies, business areas, and ideas, with a passion for contributing to a more resilient planet. Prior to joining the Company, Mr Wallerstein worked with Naspers in China. Mr Wallerstein currently serves as a director of a subsidiary of the Company.

Ma Xiaoyi, age 44, Senior Vice President, joined the Company in 2007 and has been responsible for international publishing of Tencent Games, establishing and maintaining long-term business partnerships and cooperation for the Company since November 2008. Prior to joining the Company, Mr Ma served as a General Manager of Games Division of OPTIC Communication Co., Ltd. Prior to that, Mr Ma worked as a General Manager in Shanghai EasyService Technology Development Ltd. Mr Ma graduated from Shanghai Jiaotong University in 1997, and received an EMBA degree from Fudan University in 2008. Mr Ma currently serves as a director of certain subsidiaries of the Company.

John Shek Hon Lo, age 49, Chief Financial Officer and Senior Vice President, joined the Company in 2004 and served as the Company's Financial Controller from 2004 to 2008. Mr Lo was appointed as the Company's Vice President and Deputy Chief Financial Officer in 2008 and was appointed as Chief Financial Officer in May 2012. Prior to joining the Company, Mr Lo worked in PricewaterhouseCoopers as Senior Manager (audit services). He is a Fellow of the CPA Australia, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Chartered Institute of Management Accountants. Mr Lo received a Bachelor of Business in Accounting from Curtin University and an EMBA degree from Kellogg Graduate School of Management, Northwestern University and HKUST. Mr Lo currently serves as a director of certain subsidiaries of the Company.

Guo Kaitian, age 45, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's functional divisions of legal affairs, administration, infrastructure, procurement, public strategy, safety management and corporate social responsibility. Mr Guo received a Bachelor of Law degree from Zhongnan University of Economics and Law in 1996. Mr Guo currently serves as a director of a subsidiary of the Company.

Xi Dan, age 42, Senior Vice President, joined the Company in 2002 and has been responsible for overseeing the Company's talent development and functional management since May 2008. Prior to joining the Company, Mr Xi was responsible for HR management in ZTE Corporation and has more than 22 years of experience in IT and Internet industries. Mr Xi received a Bachelor of Science degree in Applied Computer Science from Shenzhen University in 1996 and an MBA degree from Tsinghua University in 2005. Mr Xi currently serves as a director or officer of certain subsidiaries of the Company.

DIRECTORS' SERVICE CONTRACTS

Mr Ma Huateng has entered into a service contract with the Company for a term of three years from 1 January 2016 to 31 December 2018. The term of the service contract can be extended by agreement between the Company and Mr Ma. The Company may terminate the service contract by three months' written notice at any time, subject to paying his salary for the shorter of six months and a portion of his annual bonus for the year in which termination occurred pro rata to the portion of the year before the termination becomes effective.

Mr Lau Chi Ping Martin has entered into a service contract with the Company for a term of three years ending 31 December 2018. Mr Lau is entitled to an annual bonus based on the performance of the Company in an amount to be determined by the Remuneration Committee. Mr Lau is entitled to participate in all employee benefit plans, programmes and arrangements of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the 2018 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of shares/ underlying shares held	Approximate % of shareholding
Ma Huateng	Corporate (Note 1)	819,507,500	8.63%
Lau Chi Ping Martin	Personal *	46,968,000 (Note 2)	0.49%
Li Dong Sheng	Personal *	46,300 (Note 3)	0.0005%
Iain Ferguson Bruce	Personal *	470,000 (Note 4)	0.005%
Ian Charles Stone	Personal *	180,000	0.004%
	Family +	240,000	
		420,000 (Note 5)	
Yang Siu Shun	Personal *	21,474 (Note 6)	0.0002%

Note:

1. Advance Data Services Limited, a British Virgin Islands company wholly-owned by Ma Huateng, holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation.

2. The interest comprises 30,468,000 shares and 16,500,000 underlying shares in respect of the share options granted pursuant to the Post-IPO Option Scheme II and the Post-IPO Option Scheme III. Details of the share options granted to this director are set out above under "Share Option Schemes".

3. The interest comprises 11,300 shares and 35,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out above under "Share Award Schemes".

4. The interest comprises 400,000 shares and 70,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out above under "Share Award Schemes".

5. The interest comprises 350,000 shares and 70,000 underlying shares in respect of the awarded shares granted pursuant to the 2007 Share Award Scheme and the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out above under "Share Award Schemes".

6. The interest comprises 2,868 shares and 18,606 underlying shares in respect of the awarded shares granted pursuant to the 2013 Share Award Scheme. Details of the awarded shares granted to this director are set out above under "Share Award Schemes".

* Interests of beneficial owner

\+ Interests of spouse or child under 18 as beneficial owner

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

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

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2017.

CONNECTED TRANSACTIONS

Reference is made to the waiver granted by the Stock Exchange regarding the compliance with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules when the Company was listed in June 2004.

The reasons for using Structure Contracts

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

For a summary of the major terms of the Structure Contracts, please refer to the sections headed "Our History and Structure" and "Structure Contracts" in the IPO prospectus. During the year ended 31 December 2017, there was no material change in the Structure Contracts and/or the circumstances under which they were adopted, and none of the Structure Contracts has been unwound as none of the restrictions that led to the adoption of Structure Contracts has been removed.

Requirements related to Structure Contracts (other than relevant foreign ownership restrictions) as at 31 December 2017

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

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

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

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

Particulars of the OPCOs

Set out below is the registered owners and business activities of the OPCOs which had entered into transactions with the Group during the year ended 31 December 2017:

Name of the operating companies	Registered owners as at 31 December 2017	Business activities
Tencent Computer	54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan	Provision of value-added services and Internet advertisement services in the PRC
Shiji Kaixuan	54.29% by Ma Huateng 22.85% by Zhang Zhidong 11.43% by Xu Chenye 11.43% by Chen Yidan	Provision of Internet advertisement services in the PRC
Wang Dian	Shiji Kaixuan	Provision of value-added services in the PRC
Beijing BIZCOM	Tencent Computer	Provision of value-added services in the PRC
Beijing Starsinhand	50% by Chen Guangyu 50% by Tang Yibin	Provision of value-added services in the PRC

The above OPCOs are significant to the Group as they hold relevant licences to provide Internet information services and other value-added telecommunications services. The aggregate gross revenue and net asset value of the above OPCOs that are subject to the Structure Contracts amounted to approximately RMB139 billion for the year ended 31 December 2017 and approximately RMB25 billion as at 31 December 2017 respectively.

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

The Company's independent non-executive directors had reviewed the Structure Contracts (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) and confirmed that the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts and, had been operated so as to transfer by the date of this annual report Tencent Computer's and Shiji Kaixuan's Surplus Cash (as defined in the section "Our History and Structure – Structure Contracts" of the IPO prospectus of the Company) as at 31 December 2017 to Tencent Technology, Cyber Tianjin (formerly known as Shidai Zhaoyang Technology (Shenzhen) Company Limited in the IPO prospectus of the Company), Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network and Guangzhou Tencent Technology. The Company's independent non-executive directors had also confirmed that no dividends or other distributions had been made by the OPCOs to the holders of their equity interests and the terms of any new Structure Contracts entered into, renewed and/or cloned during the relevant financial period are fair and reasonable so far as the Group was concerned and in the interests of the Company's shareholders as a whole. To this extent, similar Structure Contracts were entered into relating to the New OPCOs.

The Auditor had carried out procedures on the transactions pursuant to the Structure Contracts and had provided a letter to the Board confirming that such transactions had been approved by the Board and had been entered into, in all material respects, in accordance with the relevant Structure Contracts and had been operated so as to transfer the Surplus Cash of the OPCOs as at 31 December 2017 to the WFOEs and that no dividends or other distributions had been made by the OPCOs to the holders of their equity interests.

Transactions carried out during the year ended 31 December 2017, which have been eliminated in the consolidated financial statements of the Group, are set out as follows:

1. Pursuant to the TCS CFC, the parties shall co-operate in the provision of communications services. Tencent Technology and its affiliates shall allow Tencent Computer to use its and its affiliates' assets and to provide services to Tencent Computer. Tencent Computer shall transfer all of its Surplus Cash to Tencent Technology and its affiliates as consideration. The parties also established the TCS Co-operation Committee according to this agreement. During the year, revenue sharing amounting to approximately RMB53,832,000,000, RMB2,933,000,000, RMB16,895,000,000, RMB13,417,000,000, RMB6,940,000,000, RMB1,587,000,000, RMB951,000,000, RMB228,000,000, RMB7,414,000,000, RMB873,000,000 and RMB69,000,000 were paid or payable by Tencent Computer to Tencent Technology, Cyber Tianjin, Tencent Beijing, Tencent Chengdu, Tencent Shanghai, Tencent Wuhan, Chongqing Tencent Information, Shanghai Tencent Information, Shenzhen Tencent Information, Hainan Network, and Guangzhou Tencent Technology respectively. In addition, during the year, Internet data center service fees amounting to approximately RMB674,000,000 and RMB149,000,000 were paid or payable by Tencent Computer to Cyber Tianjin and Shanghai Tencent Information, and IOS account usage fees amounting to RMB50,000, RMB50,000, RMB50,000 and RMB50,000 were paid or payable to Tencent Technology, Cyber Tianjin, Tencent Beijing and Tencent Shanghai respectively.

2. Pursuant to the SKT CFC, the parties shall co-operate in the provision of communications services. Cyber Tianjin and its affiliates shall allow Shiji Kaixuan to use its and its affiliates' assets and to provide services to Shiji Kaixuan. Shiji Kaixuan shall transfer all of its Surplus Cash to Cyber Tianjin and its affiliates as consideration. The parties also established the SKT Co-operation Committee according to this agreement. During the year, no service was transacted under such arrangements, save as disclosed elsewhere in this section.

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

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

5. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified domain names against payment of annual royalties determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no grant of domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.

6. Pursuant to the domain name licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant to Shiji Kaixuan a non-exclusive licence to use specified domain names against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no grant of domain name licence was transacted under such arrangements, save as disclosed elsewhere in this section.

7. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Tencent Computer, as licensee, Tencent Technology shall grant to Tencent Computer a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Tencent Computer's annual revenues (which may be adjusted pursuant to the agreement or the TCS CFC). During the year, no grant of trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

8. Pursuant to the trademark licence agreement dated 28 February 2004 entered into between Tencent Technology, as licensor, and Shiji Kaixuan, as licensee, Tencent Technology shall grant to Shiji Kaixuan a non-exclusive licence to use specified trademarks against payment of annual royalties determined as a percentage of Shiji Kaixuan's annual revenues (which may be adjusted pursuant to the agreement or the SKT CFC). During the year, no grant of trademark licence was transacted under such arrangements, save as disclosed elsewhere in this section.

9. Pursuant to the information consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Tencent Computer, Tencent Technology shall provide specified information consultancy services to Tencent Computer against payment of an annual consultancy service fee determined by the TCS Co-operation Committee within a range of percentages of Tencent Computer's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

10. Pursuant to the technical consultancy services agreement dated 28 February 2004 entered into between Tencent Technology, as consultant, and Shiji Kaixuan, Tencent Technology shall provide specified technical consultancy services to Shiji Kaixuan against payment of an annual consultancy service fee determined by the SKT Co-operation Committee within a range of percentages of Shiji Kaixuan's annual revenues. During the year, no consultancy service was transacted under such arrangements, save as disclosed elsewhere in this section.

11. Pursuant to the co-operation framework agreement entered into between each of the New OPCOs and one of the WFOEs, the parties shall cooperate in the provision of communications services. For each agreement, the WFOEs shall allow the New OPCOs to use its and its affiliates' assets and provide services to the New OPCOs. The New OPCOs shall transfer all of its Surplus Cash to the WFOEs and its affiliates as consideration. Co-operation committees have also been established according to these agreements. During the year, revenue sharing amounting to approximately RMB4,000,000, RMB5,000,000, and RMB151,000,000 was paid or payable by Wang Dian to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB8,000,000, RMB58,000,000, and RMB32,486 was paid or payable by Beijing BIZCOM to Tencent Technology, Cyber Tianjin and Tencent Beijing respectively. Revenue sharing amounting to approximately RMB2, RMB4,000,000, and RMB2,000,000 was paid or payable by Beijing Starsinhand to Tencent Technology, Cyber Tianjin, and Tencent Beijing respectively.

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

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

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

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

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

Other connected transactions

Save as the related parties transaction disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 20 (Transactions with associates), Note 25 (Loans to investees and investees' shareholders) and Note 33 (Share-based payments) to the consolidated financial statements, no related parties transactions disclosed in the consolidated financial statements constitutes a discloseable connected transaction as defined under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the shares of the Company:

Long/ short position in the shares of the Company

Name of shareholder	Long/ short position	Nature of interest/ capacity	Number of shares/ underlying shares held	Approximate % of shareholding
MIH TC	Long position	Corporate (Note 1)	3,151,201,900	33.17%
Advance Data Services Limited	Long position	Corporate (Note 2)	819,507,500	8.63%
JPMorgan Chase & Co.	Long position	Beneficial owner	345,329,671	
		Investment manager	90,650,033	
		Trustee	55,297	
		Approved lending agent	252,244,988	
		Total (Note 3(i)):	688,279,989	7.25%
	Short position	Beneficial owner (Note 3(ii))	199,724,405	2.10%

Note:

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

2. Advance Data Services Limited holds 723,507,500 shares directly and 96,000,000 shares indirectly through its wholly-owned subsidiary, Ma Huateng Global Foundation. As Advance Data Services Limited is wholly-owned by Ma Huateng, Mr Ma has an interest in these shares as disclosed under the section of "Directors' Interests in Securities".

3. (i) Such long position includes derivative interests in 170,400,394 underlying shares of the Company of which 11,434,756 underlying shares are derived from listed and physically settled derivatives, 6,366,100 underlying shares are derived from listed and cash settled derivatives, 37,773,991 underlying shares are derived from unlisted and physically settled derivatives and 114,825,547 underlying shares are derived from unlisted and cash settled derivatives. It also includes 252,244,988 shares in lending pool.

   (ii) Such short position includes derivative interests in 172,159,686 underlying shares of the Company of which 9,198,803 underlying shares are derived from listed and physically settled derivatives, 13,810,660 underlying shares are derived from listed and cash settled derivatives, 26,774,810 underlying shares are derived from unlisted and physically settled derivatives and 122,375,413 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, the Company had not been notified of any other persons (other than the directors or chief executive of the Company) who, as at 31 December 2017, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the five largest customers of the Group accounted for approximately 2.66% of the Group's total revenues while the largest customer of the Group accounted for approximately 0.80% of the Group's total revenues. In addition, for the year ended 31 December 2017, the five largest suppliers of the Group accounted for approximately 16.40% of the Group's total purchases while the largest supplier of the Group accounted for approximately 5.20% of the Group's total purchases.

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

AUDIT COMMITTEE

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

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.

ENVIRONMENT AND COMPLIANCE WITH LAWS

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

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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

PRE-EMPTIVE RIGHTS

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 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 programmes, discretionary bonuses, share awards and share options may be awarded to employees according to the assessment of individual performance.

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

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

(A) Entitlement to Attend and Vote at the 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.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2018 AGM.

On behalf of the Board

Ma Huateng
Chairman

Hong Kong, 21 March 2018

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the code provisions as set out in the CG Code. The Board believes that throughout the year ended 31 December 2017, the Company complied with the applicable code provisions set out in the CG Code, except for the deviation from code provisions A.2.1 regarding the segregation of the roles of the chairman and chief executive and A.4.2 regarding the retirement and re-election of directors.

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

BOARD OF DIRECTORS

Responsibilities

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

The Board has defined the business and governance issues for which it needs to be responsible for, and these matters are reviewed periodically to ensure that the Company maintains effective and up-to-date corporate governance practices. In this regard, the Board:

- determines the Group's mission, provides its strategic direction and is responsible for the approval of strategic plans;
- approves the annual business plan and budget proposed by management;
- retains full and effective control over the Group and monitors management with regard to the implementation of the approved annual business plan and budget;
- appoints the Chief Executive Officer, who reports to the Board, and ensures that succession is planned;
- approves the Company's financial statements and interim and annual reports;
- determines the Group's communication policy;
- determines director selection, orientation and evaluation;

- ensures that the Group has appropriate risk management, internal control, internal audit and regulatory compliance procedures in place and that it communicates adequately with shareholders and stakeholders;
- establishes Board committees with clear terms of reference and responsibilities as appropriate;
- defines levels of delegation in respect of specific matters, with required authority to Board committees and management;
- monitors non-financial aspects pertaining to the businesses of the Group;
- considers and, if appropriate, declares the payment of dividends to shareholders; and
- regularly evaluates its own performance and effectiveness.

The Board delegates the responsibility of day-to-day business and operations to the Company's senior management team, which includes its chief officers, the president and executive vice-presidents. The senior management team meets once every two weeks or as frequent as necessary to formulate policies and make recommendations to the Board. The senior management team administers, enforces, interprets and supervises compliance with the internal rules and operational procedures of the Company as well as its subsidiaries and conducts regular reviews, recommends and advises on appropriate amendments to such rules and procedures. The senior management team reports to the Board on a regular basis and communicates with the Board whenever required.

To better serve the long term interests of our stakeholders, the Board delegates certain matters requiring particular time, attention and expertise to its committees. The Board has determined that these matters are better dealt with by the committees as they require independent oversight and specialist input. As such, the Board has established five committees to assist the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. Each of the committees has its terms of reference which clearly specify its powers and authorities. All committees report back to the Board and make recommendations to the Board if necessary.

The Company's governance structure of these committees can be summarised as follows:

Audit Committee

- handles the relationship with the Company's external auditor;
- reviews the Company's financial information;
- exercises oversight of the Company's financial reporting system;
- reviews the work done by the Company's management with respect to risk management and internal control systems; and
- oversees the risks undertaken by the Company including determining the level of risk the Company expects to and is able to take.

Corporate Governance Committee

- reviews the Company's corporate governance and makes recommendations to the Board;
- reviews and monitors the training and continuous professional development of the directors and senior management team;
- reviews and monitors the Company's policies and practices on its compliance with legal and regulatory requirements;
- develops, reviews and monitors the code of conduct and compliance manual (if any) applicable to employees and directors;
- reviews the shareholders communication policy and makes recommendations to the Board where appropriate to enhance effective communications between the Company and its shareholders; and
- reviews the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Investment Committee

- identifies, considers and makes recommendations on mergers, acquisitions and disposals; and
- ensures compliance with the Listing Rules and any other relevant laws and regulations on any mergers, acquisitions and disposals.

Nomination Committee

- reviews and monitors the structure, size, composition and diversity of the Board in light of the Company's strategy;
- identifies suitable and qualified individuals and makes recommendations to the Board as to new Board members, by taking into account the individual's experience, knowledge, skills and background, as well as the Listing Rules requirements;
- reviews and makes recommendations to the Board on individuals nominated to be directors by shareholders;
- assesses the independence of independent non-executive directors; and
- reviews and monitors the implementation of the board diversity policy of the Company.

Remuneration Committee

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

The major work of the committees during the year 2017 is set out on pages 80 to 83.

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

We believe education and training are important for maintaining an effective Board. New directors undergo an orientation programme designed to provide a thorough understanding of the Group's operations and businesses, and also receive a handbook outlining their responsibilities under the Listing Rules and applicable laws. Existing directors are provided with tailored training programmes covering topics such as best practices in corporate governance, legal and regulatory trends and, given the nature of our business, emerging technologies and products. Directors also regularly meet with the senior management team to understand the Group's businesses, governance policies and regulatory environment. During the year ended 31 December 2017, the Company arranged training on topics relating to corporate governance, legal and regulatory updates and product trends which are relevant to the Group's businesses. The chart below summarises the participation of each of the directors in continuous professional development during the year ended 31 December 2017:

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

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

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

In addition, the Board has adopted various practices to bring the Group to a high level of corporate governance and compliance with the CG Code.

To stay abreast of the high level of corporate governance and maintain transparency of our corporate governance practices, we have continued to adopt and foster the following corporate governance practices:

- review of the shareholders communication policy has been and will be conducted on a regular basis;
- training has been and will continue to be provided to directors on a timely basis, including briefing the directors on any updates to the Listing Rules and relevant laws;
- the company secretary attends training in compliance with the Listing Rules requirements; and
- informal updates from time to time and structured monthly updates on the Company's performance, position and prospects are provided to the directors.

Chairman and Chief Executive Officer

Mr Ma Huateng serves as the Chairman and Chief Executive Officer of the Company. This is at variance with code provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

In view of the ever-changing business environment in which our Group operates, the Chairman and Chief Executive Officer must be technically sophisticated and sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board thus considers that a segregation of the roles of the Chairman and Chief Executive Officer may create unnecessary costs for the daily operation of the Group.

Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team. Chief officers and senior executives are invited to attend Board meetings from time to time to make presentations and answer Board's enquiries. In addition, directors are encouraged to participate actively in all Board and committee meetings of which they are members, and the Chairman ensures that all issues raised are properly briefed at the Board meetings, and he works with the senior management team to provide adequate, accurate, clear, complete and reliable information to members of the Board in a timely manner. Further, the Chairman ensures that adequate time is available for discussion for all items at the Board meetings. During the year ended 31 December 2017, the Chairman held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of the executive directors as required by the Listing Rules.

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

Composition

As at the date of this annual report, the Board is comprised of eight directors, with two executive directors, two non-executive directors and four independent non-executive directors. During the year ended 31 December 2017 and up to the date of this annual report, there is no change to the composition of the Board.

A list of directors and their respective biographies are set out on pages 48 to 51 of this annual report.

In order to take advantage of the skills, experiences and diversity of perspectives of the directors and in order to ensure that the directors give sufficient time and attention to the Group's affairs, we request each of the directors to disclose to the Company, on a quarterly basis, the number and the nature of offices held in public companies or organisations and other significant commitments. The Board's composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board. The Board believes that the balance between the executive directors and the non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the shareholders and the Group.

The Board values the importance of professional judgment and advice provided by non-executive directors to safeguard the interests of the shareholders. The non-executive directors contribute diversified qualifications and experience to the Group by expressing their views in professional, constructive and informed manner, and actively participate in Board and committee meetings and to bring professional judgment and advice on issues relating to the Group's strategies, policies, performance, accountability, resources, key appointments, standards of conduct, conflicts of interests and management process, with the shareholders' interests being the utmost important factor. The non-executive directors also exercise their professional judgment and utilise their expertise to scrutinise the Company's performance in achieving agreed corporate goals, and monitor performance reporting.

Further, in compliance with Rule 3.10 of the Listing Rules, two of our independent non-executive directors have the appropriate professional qualifications of accounting or related financial management expertise, and provide valuable advice from time to time to the Board. The Company has also received from each independent non-executive director a confirmation annually of his independence and the Nomination Committee has conducted an annual review and considers that all independent non-executive directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive director.

As part of our corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, independent non-executive directors are identified as such in all corporate communications containing the names of the directors. In addition, an updated list of directors identifying the independent non-executive directors and the roles and functions of the directors is maintained on the Company Website and the Stock Exchange's website.

Appointments, Re-election and Removal

The Board is the core of the Group's success, and with the appropriate composition of the Board, we can benefit from the right set of skills, experience and diversity of perspectives to take the Company forward. Therefore, it is essential for the Company to maintain a formal, considered and transparent procedure for the appointment of new directors to the Board. It is our corporate governance practice and in accordance with the Articles of Association that all directors (except for the Chairman) should be subject to re-election at regular intervals and the resignation and removal of any director should be explained with reasons. In the 2017 annual general meeting, Messrs Lau Chi Ping Martin and Charles St Leger Searle retired and were re-elected, and Mr Yang Siu Shun was re-elected in accordance with Article 86(3) of the Articles of Association.

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

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

Board Activity

The Board met four times in 2017. The attendance of each director at Board, committee meetings, annual general meeting and extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

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

At the Board meetings, the Board discussed a wide range of matters, including the Group's overall strategies, financial and operational performances, approved the annual, interim and quarterly results of the Group, the appointment of directors, business prospects, regulatory compliance and corporate governance, and other significant matters. The company secretary, in consultation with the Chairman and the senior management team, prepares the agenda for each meeting and all directors are given the opportunity to include matters for discussion in the agenda. The company secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. The company secretary sends notice of the Board meeting to each of the directors at least 14 days in advance of each regular Board meeting. The company secretary also sends the agenda, board papers and relevant information relating to the Group to each of the directors at least 3 days in advance of each regular Board meeting and committee meeting, and keeps the directors updated on the Group's financial performance and latest developments. If any director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. If there is potential or actual conflict of interests involving a substantial shareholder or a director, such director will declare his interest and will abstain from voting on such matters. The directors may approach the Company's senior management team when necessary. The directors may also seek independent professional advice at the Company's expense in appropriate circumstances.

The company secretary ensures that there is a good and timely flow of information to the Board. The company secretary is responsible for taking minutes of all Board and committee meetings and ensuring that sufficient details of the matters considered and decisions reached have been recorded. Draft and final version of the minutes of meetings are sent to the directors for comments and records respectively within a reasonable time after each meeting, and final minutes with the relevant board papers and related materials are kept by the company secretary and are available for review and inspection by the directors at any time.

THE COMMITTEES

As described above, the Board has established five committees, each of which has been delegated responsibilities and reports back to the Board: Audit Committee, Corporate Governance Committee, Investment Committee, Nomination Committee and Remuneration Committee. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code. The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company Website and the Stock Exchange's website.

Audit Committee

The Audit Committee comprises only non-executive directors. Its members are Mr Iain Ferguson Bruce, Mr Ian Charles Stone, Mr Yang Siu Shun (all of them are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). Mr Iain Ferguson Bruce, who chairs the Audit Committee, and Mr Charles St Leger Searle and Mr Yang Siu Shun have appropriate professional qualifications and experiences in financial matters.

The Audit Committee meets not less than four times a year; in 2017 the Audit Committee met eight times. Individual attendance of each Audit Committee member is set out on page 79. In addition to the members of the Audit Committee, meetings were attended by the Chief Financial Officer, the Head of IA and the Head of IC, and the external auditor at the invitation of the Audit Committee.

The Audit Committee's major work during the year 2017 includes reviewing:

- the 2016 annual report, including the Corporate Governance Report, the Environmental, Social and Governance Report, Directors' Report and the financial statements, as well as the related results announcement;
- the 2017 interim report and interim results announcement;
- the 2017 first and third quarters results announcements;
- compliance with the CG Code, the Listing Rules and relevant laws;
- in relation to the external auditor, their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;

- the plans (including those for 2017), resources and work of the Company's internal auditors;
- the adequacy of resources, qualifications and training of the Group's finance department; and
- the effectiveness of the Company's financial reporting system, the system of internal controls in operation, risk management system and associated procedures within the Group.

PricewaterhouseCoopers ("PwC") is the Group's external auditor. The Audit Committee annually reviews the relationship of the Company with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied with this relationship. As such, the Audit Committee has recommended their re-appointment at the 2018 AGM.

Corporate Governance Committee

The Corporate Governance Committee comprises only non-executive directors. Its members are Mr Charles St Leger Searle (non-executive director), Mr Iain Ferguson Bruce, Mr Ian Charles Stone and Mr Yang Siu Shun (all of them are independent non-executive directors). The Corporate Governance Committee is chaired by Mr Charles St Leger Searle.

The Corporate Governance Committee met twice in 2017. Individual attendance of each Corporate Governance Committee member is set out on page 79.

The Corporate Governance Committee's major work during the year 2017 includes the following:

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

Investment Committee

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

In 2017, the Investment Committee had considered and passed various resolutions on its decisions on the Group's acquisitions and disposals.

Nomination Committee

The Nomination Committee comprises a majority of independent non-executive directors. Its members are Mr Ma Huateng, Mr Li Dong Sheng, Mr Iain Ferguson Bruce, Mr Ian Charles Stone (all three are independent non-executive directors) and Mr Charles St Leger Searle (non-executive director). The Nomination Committee is chaired by Mr Ma Huateng.

The Nomination Committee met once in 2017. Individual attendance of each Nomination Committee member is set out on page 79.

During 2017, the Nomination Committee reviewed board composition and director succession, and the board diversity policy, and also considered and made recommendations to the Board on the re-appointment of the retiring directors at the 2017 annual general meeting. The Nomination Committee has also assessed the independence of the independent non-executive directors and considers all of them to be independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive director. The Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. As such, the Board has set measurable objectives for the implementation of the board diversity policy to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board. The Nomination Committee is satisfied that the board diversity policy is successfully implemented with reference to the measurable objectives. The Nomination Committee will continue to monitor the implementation of the board diversity policy and will review the board diversity policy periodically to ensure its continued effectiveness.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors. Its members are Mr Ian Charles Stone, Mr Li Dong Sheng (both are independent non-executive directors) and Mr Jacobus Petrus (Koos) Bekker (non-executive director). The Remuneration Committee is chaired by Mr Ian Charles Stone.

The Remuneration Committee met three times in 2017. Individual attendance of each Remuneration Committee member is set out on page 79.

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

The Remuneration Committee's major work during the year 2017 includes the following:

- reviewing and recommending to the Board in respect of the remuneration policies and structure of the Company by benchmarking peer companies with a similar scale to ensure that the Company's remuneration packages are competitive to recruit the best talents in the industry and to retain key staff;
- reviewing and recommending to the Board on the remuneration packages for the directors;
- assessing performance and, reviewing and approving amendments to the remuneration packages for the members of the senior management team;

- reviewing and approving compensation awards granted to senior management team, to recognise their contributions to the Company and to provide incentives for future performances; and
- reviewing and endorsing the proposed adoption of the new share option schemes.

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles.

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

ACCOUNTS, RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

The First Line of Defence -- Operation and Management

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

The Second Line of Defence -- Risk Management

The Second Line of Defence is mainly the IC. This line of defence is responsible for formulating policies related to the risk management and internal control of the Company and for planning and implementing the establishment of integrated risk control systems. For ensuring effective implementation of such systems, this line of defence also assists and supervises the first line of defence in the establishment and improvement of risk management and internal control systems.

The Third Line of Defence -- Independent Assurance

The Third Line of Defence mainly consists of the functions of internal audit and anti-fraud investigation under the IA.

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

The anti-fraud investigation function is responsible for receiving whistleblower reports through various channels and for following up and investigating alleged fraudulent activities. It also assists management in promoting the "Tencent Sunshine Code of Conduct" (the "Sunshine Code") and the value of integrity to all employees of the Company. The IA has direct reporting lines to the Audit Committee.

These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board and management have always attached significance to the Company's risk management and internal control systems. In 2017, the Company has invested even more resources in the continuous improvement of the risk management and internal control systems, which have also increased the awareness of risk management among the employees. The internal control function has continuously worked closely with and provided proactive supports to the business groups in their business development and risk management. Furthermore, the IA has also continued to promote the deployment of continuous audits to provide more effective and timely independent evaluations. The connection and interaction among the three lines of defence have been further strengthened to have more positive supports to the Company.

Risk Management

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

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

Risk Management Process

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

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

Significant Risks of the Company

In 2017, management has identified and determined eight significant risks of the Company through the risk management process detailed above. Comparing with 2016, "2B business risk" and "Crisis management and reputation risk" are the two additional risks identified and disclosed as significant risks of the Company in 2017. As the Company's business scale, scope and complexity have evolved, so does its external environment, management considers that the Company is still facing the six significant risks disclosed in 2016 - the business continuity risk stays at the similar level as last year while the other risks increased in different degrees.

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

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

1. *Market competition and innovation risk*

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

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

2. *2B business risk*

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

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

3. *Business continuity risk*

The stability of servers and network infrastructure for products and platforms of the Company is of vital importance for the successful operation of the Company's business as well as the provision of high quality user experience. Any material functional defect, interruption, breakdown or other issue in connection is likely to materially adversely impact the Company's businesses.

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

4. *Acquisition and investment management risk*

With the Company's increased investment activities, it is important for the Company to adopt robust procedures in the formulation of investment strategies and strong treasury management, both at the investment evaluation stage as well as the post-investment stage. Failure to promptly manage investment risks could hinder the realization of investment strategies.

The Company takes the management of investment risks seriously, and has, amongst other things, established an Investment Committee under the Board, dedicated an investment team to identify investment opportunities, appointed finance, legal and other relevant professional teams to manage relevant risks and put in place the investment risk evaluation and approval process. There is also a designated professional team that regularly reviews the Company's cash position and, continuously expands its financing channels and capabilities to meet the needs from the Company's business operations as well as acquisitions. The Company has also designated finance, legal and other relevant professional teams to support and monitor the performance of the investee companies. These teams periodically analyse and review relevant operating and financial information of the investee companies to ensure that they continue to satisfy the Company's investment strategies. Furthermore, the Company has strengthened its IT system development to enhance the transparency of the management process, analyse key information of investment companies in a timely manner, and make/take more timely and effective management decisions and actions. In addition, the Company has invested resources in internal audit and internal control to support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.

5. *Information security risk*

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

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

6. *Governance policies and regulations risk*

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

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

7. *Social responsibility risk*

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

The Company has long been endeavoring to promote the healthy development of the Internet industry, and efforts are being made to make the products and platforms of the Company exert a positive community influence. The Company pays close attention to content quality, product design and operation of the platform. The Company actively provides more assurance to the society by using advanced technology to prohibit any illegal and unhealthy information and content access the Company's platform and products. For examples, the "Tencent Game Guardian Platform" is an time management tool used to control the time juveniles spend on games; "Shepherd Plan" is a non-profit platform used for preventing the telecom fraud and internet frauds; and "QQ City Power" is another platform used to find missing children in China. At the same time, the Company has established a sound monitoring and reporting mechanism to deal with illegal and vicious information.

8. *Crisis management and reputation risk*

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

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

Internal Control

The Company has always valued the importance of the internal control systems, and has been implementing the COSO Framework.

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

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

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

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

Effectiveness of Risk Management and Internal Control

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

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

The Board is of the view that throughout the year ended 31 December 2017, the risk management and internal control systems of the Company are effective and adequate.

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

SHAREHOLDERS

The Company strives to provide ready, equal, regular and timely disclosure of information that is material to the investor community. Therefore, the Company works to maintain effective and on-going communication with shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information. The Company also encourages shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, the Company sends notices to shareholders for annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. In addition, the Company has developed and maintains the shareholders communication policy, which is available on the Company Website.

The Company's general meetings provide a transparent and open platform for the Company's shareholders to communicate with the Board and the senior management team. The Chairman, other members of the Board and relevant members of the senior management team, under normal circumstances, attend to answer questions raised and discuss matters in relation to the Company in an open manner. Save as Mr Li Dong Sheng, all directors attended the 2017 annual general meeting and the extraordinary general meeting held on 17 May 2017, with a view to understanding the views of the Company's shareholders. The company secretary provided the minutes of 2017 annual general meeting and the aforesaid extraordinary general meeting to all directors to have a thorough understanding of the views of the Company's shareholders. The Company's external auditor will also attend the annual general meeting to answer questions relating to the conduct of the audit, the auditor's report and auditor independence. The Company's shareholders may also propose candidates for election as a director of the Company according to the procedures set out in the Company Website.

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

In order to ensure that shareholders' interests and rights are adequately protected, a separate resolution will be proposed for each substantially separate issue at the general meetings, and all resolutions will be voted by poll pursuant to the Articles of Association and the Listing Rules. To ensure the shareholders are familiar with the detailed procedures for conducting a poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from shareholders on the voting procedures will be answered before the poll voting starts. An external scrutineer will be appointed to monitor and count the votes cast by poll. Poll results will be posted on the Company Website and the Stock Exchange's website after each general meeting.

Apart from participating in the Company's general meetings, the Company's shareholders are provided with contact details of the Company such as telephone number and email address which are available on the Company Website, in order to enable them to make any query that they may have. Shareholders may send their enquiries to the Board directly through these means. Shareholders may also contact the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, if they have any enquiries about their shareholdings and entitlements to dividends.

DISCLOSURE OF OTHER INFORMATION

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

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code. The Company has also adopted an insider dealing policy for employees for securities transactions by employees who are likely to be in possession of inside information relating to the Company, the terms of which are no less exacting than those of the Model Code. The Company has made specific enquiries with the directors and the directors have confirmed they have complied with the Model Code throughout 2017.

Appointment Terms of Non-Executive Directors

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

Directors and Officers Liability Insurance

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

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 112 to 120. During the year ended 31 December 2017, the remuneration paid/payable to the Company's external auditor, PwC, was disclosed in Note 8 to the consolidated financial statements. The audit and audit-related services conducted by the external auditor mainly comprise of statutory audits and reviews for the Group and certain of its subsidiaries. The amounts of audit and audit-related services for the year ended 31 December 2017 also included the services fees in connection with the initial public offering of a subsidiary of the Company. The non-audit services conducted by the external auditor mainly include professional services on risk management and internal control review, mergers and acquisitions advisory and tax advisory.

Framework for Disclosure of Inside Information

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

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

OVERVIEW

This report provides information on the Group's environmental, social and governance ("ESG") performance for the year of 2017. It should be read in conjunction with this annual report, in particular the Corporate Governance Report contained in this annual report, as well as the sections headed "Corporate Governance" and "Culture" on the Company Website.

SCOPE OF THIS REPORT

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

ESG STRATEGY, MANAGEMENT APPROACH, PRIORITIES AND OBJECTIVES

We believe that it is important to formulate effective strategies to balance the economic, environmental and social benefits of our activities with our other business targets. We have fully integrated ESG considerations into our operations as part of our corporate development strategy, with a particular focus on fostering closer connections with our stakeholders, listening to the voices of our users, working openly with partners to overcome challenges, caring for and growing with employees, and taking on more responsibility within society.

At the heart of our ESG strategy is our vision to become the most respected Internet company. In pursuit of this vision, we embrace the principle of sustainability, uphold integrity and promote shared growth and development within the industry; environmental protection, staff development and community welfare are always at the forefront. We conduct and review our ESG strategy in five dimensions as detailed below.

Five Dimensions of our ESG Strategy

1. Business operations
   - Operate in compliance with applicable laws and regulations
   - Operate with integrity and protect shareholders' interests
   - Care for employees and provide them with training and development opportunities
   - Establish a diverse corporate culture

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

3. Business partners (including suppliers and investee companies)
   - Ensure our partners receive fair treatment and benefit from their collaboration with us
   - Allow investee companies to maintain autonomy for their business development and meet them on a regular basis for exchange of industry knowledge and know-how
   - Hold regular meetings with our partners to review their performance and explore possible collaboration opportunities
   - Combat behaviours which are harmful to the interest of our partners by setting up an independent steering group on business ethics and anti-bribery practice

4. Community
   - Establish a platform for charity donations
   - Promote innovation and the establishment of a legal framework to protect IP rights
   - Contribute to the industry and continue to provide an open platform

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

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

Stakeholder analysis

We understand the importance of the feedback from our stakeholders (including our users, investors, employees and business partners) on our ESG performance. Therefore, we have an effective communication channel with our stakeholders, which includes conducting an employee satisfaction survey annually and user experience research, engaging in constant discussion with our users directly before and after the launch of our products and services, and sharing our ESG strategies with our business partners.

Our ESG Direction

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

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

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

ENVIRONMENT

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

Energy Saving Measures taken in our New Office Building

We have taken environmental protection as one of our priorities when designing our new office building, Tencent Binhai Building, in Shenzhen. The construction has been completed in accordance with LEED-EB standards. The property management company of the Shenzhen headquarters has obtained ISO 14001 (environmental management) certification, ISO 9001 (quality management) certification and GB/T 23331 (energy management system) certification. We have also implemented various measures to enhance efficiency of energy use and reduce water consumption and emissions.

We have optimised the air conditioning system and the integrated building management system in order to automate the energy saving and monitoring process. The air conditioning system uses pumps controlled by frequency-conversion technology for the enhancement of energy efficiency. We have also reduced energy consumption of the air conditioning system by partially deploying natural ventilation in autumn and winter.

Our new office building has adopted a centralised system to collect, purify and recycle rainwater and condensed water from the air conditioning system for the purposes of flushing, watering plants and cleaning the parking lot. In addition, we have installed a direct drinking water system in replacement of bottled water. It reduces the use of plastic packaging materials and indirectly reduces the CO_2 emissions generated from the delivery of bottled water.

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

Energy Saving Measures taken in our Data Centres

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

T-block technology (comprising (i) photovoltaic + High Voltage Direct Current ("HVDC") technology for electrical design; (ii) indirect evaporative cooling units; (iii) smart control system; and (iv) fully commercialised project delivery solution) has been used in the fourth generation of our data centres, including the new data centre in Guangming, Shenzhen. Our PRC data centres are in the leading position in terms of power usage effectiveness in the PRC industry. According to a press release published by the Ministry of Industry and Information Technology of the PRC in April 2017, the power usage effectiveness of newly built big data centres in the PRC should be below 1.5 on average while that of our recently built Shenzhen data centre (which is located in a low-altitude climate zone) was below 1.25.

Our data centres are one of the first in the industry to use the combined cooling heating and power system and photovoltaic technology to generate clean energy. In addition, we are building an advanced data centre with a high level of privacy, defence and security in Gui'an in the PRC, which will serve as a highly reliable and environmentally friendly data centre for our Group and our eco-friendly business partners. In the Gui'an data centre, we will apply our self-developed T-block technology and leverage on the local climate and landscape to build a technologically advanced and energy efficient data centre with an innovative approach.

We have shared our experience and technology in building green data centres with other industry players so that HVDC, micro module and indirect evaporative cooling technologies have been widely adopted in the PRC data centre business. We have also helped to establish the industry standards for HVDC and micro module technologies in order to enhance energy saving efforts among the industry players.

Table of Environmental Key Performance Indicators

Below are the environmental key performance indicators of the Group. Unless otherwise specified, such data covers the Group's operation in China only; the data in relation to our office buildings excludes the data of Tencent Binhai Building which has only commenced partial operation since the last quarter of 2017 and the data in relation to our data centres only covers the main data centres which were built in the past three years.

1. Emissions

Total GHG emissions (Scopes 1 and 2) (tonnes)	576,659.99
Direct GHG emissions (Scope 1) (tonnes)	2,783.79
Including: Gasoline (tonnes)	190.92
Diesel (tonnes)	463.05
Natural gas (tonnes)	2,129.82
Indirect GHG emissions (Scope 2) (tonnes)	573,876.20
Including: Electricity (tonnes)	573,876.20
Total GHG emissions in the office buildings per employee (tonnes per employee)	1.63
Total GHG emissions in the office buildings per floor area (tonnes per square metre)	0.09
Hazardous waste (tonnes)	2.21
Hazardous waste per employee (tonnes per employee)	0.00005
Non-hazardous waste (tonnes)	3,954.46
Non-hazardous waste per employee (tonnes per employee)	0.09

Note:

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

2 The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data is presented in carbon dioxide equivalent and is based on the "2015 Baseline Emission Factors for Regional Power Grids in China" issued by the National Development and Reform Commission of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" issued by the Intergovernmental Panel on Climate Change (IPCC).

3 Diesel was consumed for backup generators.

4 Hazardous waste produced by the Group's operation mainly includes waste toner cartridge and waste ink cartridge from printing equipment at office buildings, as well as waste lead-acid accumulators at data centres. Waste toner cartridge and waste ink cartridge are collected and disposed of by printing suppliers, whereas lead-acid accumulators are disposed of by qualified waste recycling vendors. In 2017, there was no waste lead-acid accumulators.

5 Non-hazardous waste produced by the Group's operation mainly includes domestic waste and waste electronic devices. Domestic waste, including office waste and kitchen waste, is disposed of by the property management company and kitchen waste recycling vendors, and its data is not yet available for statistics, so we made estimation with reference to "Handbook on Domestic Discharge Efficiencies for Towns in the First Nationwide Census on Contaminant Discharge" published by the State Council. Waste electronic devices are recycled by wasting recycling vendors.

2. Energy and resources consumption

2.1 Office Buildings

Total energy consumption (MWh)	113,510.48
Direct energy consumption (MWh)	11,694.16
Including: Petrol (MWh)	779.92
Diesel (MWh)	22.04
Natural gas (MWh)	10,892.20
Indirect energy consumption (MWh)	101,816.32
Including: Electricity (MWh)	101,816.32
Total energy consumption per employee (MWh per employee)	2.67
Total energy consumption per floor area (MWh per square metre)	0.15
Running water consumption (tonnes)	612,700.27
Running water consumption per employee (tonnes per employee)	14.43
Recycled water consumption (tonnes)	5,261

2.2 Data Centres

Total energy consumption (MWh)	753,203.73
Direct energy consumption (MWh)	1,739.07
Including: Diesel (MWh)	1,739.07
Indirect energy consumption (MWh)	751,464.65
Including: Electricity (MWh)	751,464.65
Average PUE	1.28~1.50
Running water consumption (tonnes)	920,006

Note:

1 Total energy consumption is worked out by the data of electricity and fuel with reference to the coefficients in the "General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008)" published by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, and the Standardization Administration of the People's Republic of China.

2 The Group's water resources come from municipal water supply.

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

4 Electricity fees in some data centres are borne by the operators so the relevant electricity consumption data is not available. The data on electricity purchased by our data centres reported here only covers the data centres whose electricity fees are borne by the Group.

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

6 Average PUE (Power Usage Effectiveness) is yearly average data of PUE of the Group's data centres. PUE, an indicator of the power efficiency of a data centre, is the ratio of total amount of energy used by a data centre to the energy delivered to the computing equipment.

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

8 Data of packaging materials is not applicable to the Group.

WORKPLACE

Employee Development and Training

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

As our staff is one of our most important assets, we invest heavily in employee development and training. We encourage employees to attend external and internal trainings. We have adopted relevant policies to ensure that employee trainings are provided and managed in a systematic manner. For example, supervisors are required to assist in designing the professional development plans for the employees and evaluate the effectiveness of the trainings received by the employees. To ensure the quality of the trainings, we have also developed policies which set out requirements for the qualifications and experience of the instructors and the objectives of the programmes and worked with external educational institutions from time to time to jointly develop training programmes.

In 2007, we founded our own corporate university, Tencent Academy. It offers different training programmes for each stage of an employee's career, including an induction, on-the-job training and leadership training. It has also set up an online learning platform and a mobile learning system in order to allow employees to learn anytime and anywhere. In 2016, we won the Innovation in Talent Development Award by the Association for Talent Development. We are the first Chinese enterprise which received such honour in that category.

As at 31 December 2017, there were approximately 600 face-to-face courses, 5,000 online courses and over 1,000 internal part-time instructors. Over the past decade, we ran face-to-face courses over 8,000 times per year and over 1,000 courses were livestreamed per year. The aggregate number of training hours of our employees in the past 10 years exceeds 5 million. Throughout 2017, the number of the average in-house training hours per employee was 39 and the percentage of employees who received training is 99%.

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

Equal Opportunities and Diversity

We had 44,796 employees as at 31 December 2017. Our employment practice is in compliance with applicable laws and regulations (including but not limited to those which prohibit child and forced labour) and does not discriminate on the grounds of gender, ethnicity, race, disability, age, religious belief, sexual orientation or family status. Diversity is well supported in our corporate culture.

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

Compensation and Benefits

Compensation

We offer competitive pay and employee benefits to attract and retain talent. The remuneration and bonus system is performance-based and designed to reward employees with high performance and great potential.

Benefits

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

We were awarded by Universum as the most attractive employer in the Internet industry in 2015. We have also been voted as one of the best employers in the PRC for 12 consecutive years since 2006 in a survey jointly conducted by zhaopin.com and the Institute of Social Science Survey, Peking University.

We care for the well-being of our employees. For example, we celebrate special occasions of our employees (e.g. anniversary of joining us, wedding and festivities) by giving them different employee benefits. We strive to create work-life balance and a safe and comfortable work environment for employees. Employees have the flexibility to choose the most suitable insurance plans for themselves and their families.

Promotion

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

Employee Departure

All of our employees enter into written employment contracts which detail, among other things, the grounds for termination of the employment.

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

Work-Life Balance

We have implemented various initiatives such as flexi-time arrangements and volunteer service leave to help employees strike a good work-life balance. The leave scheme allows employees to enjoy annual leave, fully-paid sick leave, half-paid leave of absence and fully-paid special Chinese New Year leave which are above the statutory standard. Also, female employees are entitled to take fully-paid maternity leave, while male employees are also entitled to take fully-paid paternity leave. Employees can also apply for one day of fully-paid volunteer service leave per year.

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

Occupational Health and Safety

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

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

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

Communication

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

COMMUNITY

Community Investment

We set up the Tencent Charity Foundation (the "Tencent Foundation") on 26 June 2007. It is a non-public fundraising foundation incorporated in the PRC and a separate legal entity. We commit to donating certain portion of our profits to the Tencent Foundation every year for the purpose of supporting charitable works. As of 31 December 2017, our Group and our employees donated over RMB2.72 billion and RMB67 million in total to the Tencent Foundation respectively since its establishment. During the year 2017, our Group and our employees donated RMB820 million and RMB5.4 million to the Tencent Foundation respectively.

The Tencent Foundation believes that everyone can participate in charity work anytime and anywhere through technology. In June 2007, the Tencent Foundation leveraged on our Internet technical capabilities and online platforms to build the first online public fundraising platform. It is designed, developed and operated by the Tencent Foundation while we provide server, broadband and other technical support for free. The platform is open for eligible charitable organisations free of charge. It allows charitable works to be performed more conveniently, smoothly and transparently. This is a good example of the application of the concept of "Internet+". As of 31 December 2017, there had been approximately 5,300 active charitable organisations and over 15,000 charity projects in different locations with different focuses.

The Tencent Foundation has also applied technology to various charitable initiatives such as WeCountry for rural development and Tencent Three-dimensional Disaster Relief Programme in response to recent natural disasters in China via the online platform. In 2017, the total number of donations made by the Internet users is approximately 63 million and the total amount of the funds raised is over RMB1.6 billion.

The highlight of the Tencent Foundation's charity efforts is the annual "99 Charity Day" campaign where it matches the donations made by the Internet users between 7 September and 9 September via its online platform. In 2017, the Tencent Foundation donated RMB300 million for the campaign, of which 37% is for poverty relief, disaster relief and medical care, 31% is for education initiatives and the remaining 32% is for environmental protection initiatives and others.

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

Disaster relief

In response to the recent natural disasters in the PRC as well as globally, the Tencent Foundation has created a multifaceted disaster relief model by combining our various products including online platforms, instant messengers, online payment and Internet search to help the public follow the latest news, participate in rescue efforts and make donations. In addition, the Tencent Foundation has made donations to support the rescue missions and post-disaster reconstructions. In 2017, we donated an aggregate of approximately RMB5.9 million to the China Foundation for Poverty Alleviation, the One Foundation, Ai You Foundation and other charitable organisations in response to the earthquake in Xinjiang and the landslides in Sichuan and for the post-disaster child care programme following the earthquake in Ya'an city.

Rural development

In 2015, WeCountry, our open platform built on the "Internet + Village" model, was launched to offer villagers access digital technology which will benefit their communities. As of 31 December 2017, 16 provincial administrative areas with approximately 5,800 villages (or communities) joined WeCountry platform. The number of verified villagers is over 2 million and they interacted with each other via the platform for over 160 million times as of 31 December 2017.

Education

The Tencent Foundation has set up scholarships to promote education in the PRC, Hong Kong and other countries throughout the years. There are also specific donations for different education initiatives. In 2017, the Tencent Foundation donated approximately RMB50 million in education related projects. For example, we set up a scholarship with each of China Children and Teenagers' Fund, Li Po Chun United World College of Hong Kong and the Taxation Institute of Hong Kong. We sponsored activities of the Institute of Accountants Exchange and supported an education programme run by the China Children and Teenagers' Fund.

Ecological conservation and cultural preservation

The Tencent Foundation is keen on environmental protection and cultural preservation. In 2017, the Tencent Foundation donated approximately RMB28 million to the China Foundation for Cultural Heritage Conservation and other ecological conservation organisations to continue to preserve and repair the Great Wall and for the ecological conservation project in China.

Community development

In 2017, the Tencent Foundation donated RMB7.6 million to China Association of Social Workers and other community organisations in support of the community organisations to promote philanthropy and innovation in charity work.

Poverty relief

In 2017, the Tencent Foundation donated approximately RMB140 million to support poverty relief initiatives through Ai You Foundation and other charitable organisations.

Volunteering

In 2006, some of our employees founded the Tencent Volunteers' Association on their own initiative in response to our corporate vision of being "the most respected Internet company". Since then, the Tencent Volunteers' Association has contributed more than 100,000 hours of voluntary services. We launch more than 200 volunteering activities with more than 5,000 participants every year. In 2016, the Tencent Volunteers' Association was awarded a spot in the list of Top 10 Best Volunteer Organisations in Guangdong Province.

There are sub-divisions under the Tencent Volunteers' Association in Beijing, Shanghai, Chengdu, Shenzhen, Wuhan and Guangzhou formed by different business groups, each with a special focus on online charity, emergency support, poverty relief, scholarship, environmental protection, care for children with special needs, animal protection and green network. The Tencent Volunteers' Association works closely with the Tencent Foundation in various projects.

The Tencent Volunteers' Association combines its expertise in technology to help the community. For example, it has been broadcasting information on missing persons via Weixin/WeChat and QQ and with the latest facial recognition and blockchain technologies, the number of successful cases increased tenfold from approximately 40 in 2016 to approximately 400 in 2017.

In 2016, the Tencent Volunteers' Association also established the China IT-Philanthropy Union which promotes the "Internet + Charity" model by holding summits and publishing white papers on the successful examples of how the information technology has changed the landscape of charity work.

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

Anti-Corruption

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

Risk Management and Internal Control Policy

In 2016, we updated the Risk Management and Internal Control Policy (the "Policy") with a system comprising three lines of defence. The first line is business and functional departments. The risk management and internal control department serves as the second line while the internal audit department and anti-fraud team act as the third line of defence. The Policy sets out the roles and responsibilities of different stakeholders in risk management and controls (including those in relation to frauds). It is emphasized in the Policy that the management of each business group is primarily responsible for the risk management and internal controls of its department. If any fraudulent activity is detected, the management of the relevant department shall improve the control procedures promptly to prevent recurrence of similar incidents. The management may be subject to disciplinary actions if a fraudulent act occurs as a result of management's failure to implement any internal control measures. Each business group has its designated team to provide internal control and risk management support. We apply continuous auditing to key businesses in order to detect irregularities and identify risks in a timely and systematic manner and to improve the effectiveness of fraud risk management and control.

Tencent Sunshine Code of Conduct

All employees of the entire Group are required to follow and to strictly comply with the Tencent Sunshine Code of Conduct (the "Sunshine Code"). It expressly prohibits all kinds of fraudulent activity, bribery, extortion and any other activities which are not in compliance with applicable laws and regulations. The Sunshine Code will be reviewed annually against the changing needs of the Group and revised when appropriate, in order to ensure that it reflects the positions under applicable laws and regulations and captures all kinds of fraudulent activities. To ensure our employees comply with the requirements and ethical standards stipulated in the Sunshine Code, all employees are required to complete e-learning programmes and attend various face-to-face training programmes with a view to understanding and refreshing the rules and standards of the Sunshine Code on a regular basis. For positions with high bribery risk, those employees are required to attend face-to-face training course at least once a year.

Anti-fraud and Whistleblowing Policy

We have adopted an Anti-fraud and Whistleblowing Policy (the "Whistleblowing Policy"), which clearly conveys the message of zero tolerance in relation to fraudulent activity to all the employees and suppliers/business partners. All employees and suppliers/business partners are encouraged to report genuine concerns about any potential fraudulent activities. The Whistleblowing Policy outlines the multiple whistleblowing channels and how the Group should deal with such concerns, so that employees and suppliers/business partners can report their good faith concerns without fear of reprisal or potential retaliation.

Fraud detection and corruption prevention

When a report of suspected fraudulent activities is received, the anti-fraud investigation team, which consists of professionals with profound knowledge in fraud risk management and solid fraud investigation experiences, is assigned to handle the investigation independently. After an investigation has been completed, the employee found and proven to have committed such fraud shall be subject to immediate dismissal, and corrective actions shall be taken in response to the findings at the same time. If we find any supplier or business partner engaging in corruption or any other fraudulent activities, we will put any supplier or business partner on the blacklist and terminate the contracts with them immediately. In the event that any fraudulent activity violates any relevant laws or regulations, such cases shall be reported to government authorities. In order to convey a message regarding our determination to fight against fraud and to introduce our whistleblowing system externally, we send a letter to our suppliers and business partners (including the current ones and the ones who ceased to work with us in the past two years) and request them to complete a questionnaire annually.

Anti-Money Laundering

The Group strictly abides by all applicable laws and regulations on anti-money laundering and counter-terrorist financing, and fulfills its social responsibilities and legal obligations on anti-money laundering.

In 2017, we established an Anti-Money Laundering Committee (the "AML Committee") chaired by our executive director and President, Mr. Lau Chi Ping Martin, with heads of each relevant business group as committee members. The AML Committee supervises and monitors the implementation of the anti-money laundering and counter-terrorist financing measures at the group level and at the subsidiary level with a unified approach. The objective is to centralise the management of the anti-money laundering efforts within the Group.

We continued to improve our anti-money laundering and counter-terrorist financing systems in various aspects such as infrastructure, know-your-customer process, procedures for identification and reporting of suspicious transactions and training. We have robust systems and measures to detect, deter and protect our business from involvement in financial crimes such as money laundering and terrorist financing.

Our protective measures include, but are not limited to, the following:

Three lines of defence

The Group has implemented a three-line defence mechanism. Our first line of defence is the product team and the business development team, which are responsible for enhancing the awareness of anti-money laundering requirements and implementing anti-money laundering measures. The risk management team and anti-money laundering team serve as the second line and they are responsible for organising and coordinating the anti-money laundering efforts within the Group including but not limited to conducting assessments on the anti-money laundering governance and compliance, supervising the construction of the anti-money laundering compliance framework and organising trainings and public relations events relating to anti-money laundering. The internal audit team acts as the third line of defence and its main responsibilities include conducting the annual anti-money laundering audit and independent assessment on anti-money laundering governance.

Anti-money laundering and internal control systems

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

Other control measures

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

SUPPLY CHAIN MANAGEMENT

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

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

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

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

During the year ended 31 December 2017, all suppliers which were formally engaged had completed the Self-Assessment and signed the Anti-commercial Bribery Declaration. We are not aware of any of our suppliers engaging in commercial bribery, or being materially and adversely affected by issues relating to environmental and social responsibility.

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

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

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

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

PRODUCT RESPONSIBILITY

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

User Privacy

To uphold our dedication to value creation for our users, amongst other user specific aims, one of our important missions is to protect the privacy of user data and other sensitive information. We comply with all the applicable laws on privacy protection, and incorporate applicable legal and regulatory requirements on privacy protection into our internal compliance policies taking into account the specific features of our products and services.

We have a dedicated privacy team within the Legal Department which is responsible for handling data protection matters. We have devised specific procedures to collect and process user data to ensure that we provide our products and services in accordance with applicable legal requirements. We evaluate specific products from the perspective of privacy protection on a regular basis and perform privacy risk assessments before the launch of new products to ensure that our products are not exposed to the risk of privacy infringement or leakage of user data.

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

To ensure that our users understand how we protect their personal information and enhance the transparency of how we collect and process the data, we publish our privacy protection policies on our product websites and in-app products. We also provide communication channels for our users to file complaints and raise enquiries whenever they are in doubt.

We actively participate in shaping the development of the industry framework on privacy protection. For example, we have been accredited with privacy certifications from TrustArc for WeChat, which is the leading global data privacy management company and powers trust in the data economy by certifying businesses', compliance and security level for their customer data collection and usage across web, mobile, cloud and advertising channels. The privacy policy of Weixin has been approved in the joint review by the Cyberspace Administration of China, the Ministry of Industry and Information Technology of the PRC, the Ministry of Public Security of the PRC and the Standardisation Administration of the PRC. Our data security management has been internationally recognised – For example, Tencent Cloud have been ISO27001 (information security management), ISO22301 (business continuity) and ISO20000 (service management system) certified.

Customer Service

The Tencent Customer Service Centre consists of more than 2,000 staff members and is responsible for handling complaints and responding to enquiries from customers for our businesses. We commit to providing solutions to our customers in a timely manner through different means including customer service hotline, online customer support, Weixin/WeChat and face-to-face meeting.

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

1. There is a designated team within the customer service department to handle complaints and deal with compensation requests. The team is responsible for conducting investigation based on the information provided by the complainant, explaining the relevant procedures to the complainant and notifying the complainant of the investigation results with the aim of providing him with a satisfactory solution.

2. For better user experience, we have established a set of complaint handling procedures which set out clearly the responsibilities within the customer service department and the timeframe within which a complaint needs to be resolved.

3. We have strengthened our system infrastructure which allows classification of complaints by urgency and risk level so that the customer service staff can better prioritise the cases and deal with the complaints in a timely manner.

4. We have a designated team of staff who is responsible for handling complaints from customers who visit our offices and for better risk control we have designed a set of protocols for different types of incidents.

Healthy Environment for our Users

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

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

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

We have been actively implementing various measures to ensure compliance with the relevant laws, regulations and policies. For instance, we have already obtained the relevant credentials for operating online games, for example, the Telecommunication Business Operation Permit, the Online Publishing Service Licence and the Internet Culture Business Permit.

To safeguard the physical and mental health of online game users and adolescents, we have implemented the real name system and anti-addiction system in accordance with the regulatory requirements of the PRC and strengthened the promotion of healthy gaming and anti-addiction through various channels. In February 2017, we have launched a series of services on "Tencent Game Guardian Platform" (http://jiazhang.qq.com) which assists parents to monitor the gaming habits of their underage children. This is the platform dedicated to healthy gaming of underage children in the online game industry. In July 2017, we have implemented an anti-addiction system on Honour of Kings, which sends reminders to players or forces logout from the game if players spend too much time on the game in one day. So far it is one of the strictest anti-addiction measures taken by a gaming company in the PRC mobile game industry.

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

Monitoring of and Protection for Original User-generated Content

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

Intellectual Property Rights

We are a technology-oriented company and we stress the importance of the observation and protection of intellectual property ("IP") rights. We have established a dedicated IP team with approximately 80 employees as of 31 December 2017 that is responsible for the day-to-day management of legal matters involving trademark, patent, copyright, domain names and other IP rights.

We began a comprehensive programme for the management of IP at an early stage. We have consistently applied for the registration of IP rights since the early stages of its establishment. With the successful development of our business, we have expanded our global IP portfolio to cover more than 100 countries and regions. As of 31 December 2017, we had obtained over 14,000 officially registered trademarks and over 6,000 issued patents. Coupled with our creation of a vast amount of copyrighted content, we have accumulated IP assets of considerable value. Our IP team has developed a comprehensive database for our patents, trademarks and copyrights and our strong data analytical skills enable us to manage and monitor our IP rights in a meticulous and efficient manner. To combat infringement of IP rights, our IP team has also established a comprehensive and efficient monitoring and maintenance system, and has devised various civil, criminal and administrative enforcement measures to enforce our IP rights. Please see further details on the Company Website (https://www.tencent.com/legal/html/en-us/property.html).

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

Within the past decade, we have several times been awarded "China Patent Gold Awards" by the State Intellectual Property Office of the PRC, "China Trademark Awards" jointly by World Intellectual Property Organisation and the State Administration for Industry & Commerce of the PRC and "China Copyright Gold Awards" by the National Copyright Administration of the PRC and the World Intellectual Property Organisation, signifying our contribution to the development of independent innovation of the PRC. We have also several times been awarded "National Copyright Demonstration Unit", recognising our outstanding performance in management and protection of copyright. In November 2017, we were awarded "China Appearance Design Gold Award" by the State Intellectual Property Office of the PRC and the World Intellectual Property Organisation and this is the first time where a graphic user interface won such title.

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

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF TENCENT HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tencent Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 121 to 238, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

- Revenue recognition on provision of online games value-added services – estimates of the lifespans of virtual products/items
- Impairment assessments of goodwill, investments in associates and investments in redeemable instruments of associates
- Fair value measurement of financial instruments, including available-for-sale financial assets and other derivative financial instruments

Key Audit Matter

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

Refer to Note 4(a) to the consolidated financial statements

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

During the year ended 31 December 2017, a majority of the Group's revenue from value-added services was contributed from online games and was predominately derived from the sales of virtual products/items.

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

How our audit addressed the Key Audit Matter

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

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and investments in redeemable instruments of associates	
Refer to Notes 4(b), 19, 20 and 22 to the consolidated financial statements As at 31 December 2017, the Group held significant amounts of goodwill, investments in associates and investments in redeemable instruments of associates amounting to RMB23,608 million, RMB113,779 million and RMB22,976 million, respectively. Impairment provision of RMB124 million, RMB1,277 million and RMB607 million had been recognised during the year ended 31 December 2017 against the carrying amounts, respectively. We focused on this area due to the magnitude of the carrying amounts of these assets and the fact that significant judgements were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate impairment approaches, i.e. fair value less costs of disposal or value in use; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.	We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information. We also tested, on a sample basis, key controls in respect of the impairment assessments, including the determination of appropriate impairment approaches, valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions. Management adopted different valuation models, on a case by case basis, in carrying out the impairment assessments, mainly including discounted cash flows and market approach. We assessed, on a sample basis, the basis management used to identify separate groups of cash generating units that containing goodwill, the impairment approaches and the valuation models used in management's impairment assessments, which we found them to be appropriate. In respect of the impairment assessments of cash generating units that containing goodwill, investments in associates and investments in redeemable instruments of associates using discounted cash flows, we assessed the key assumptions adopted including revenue growth rate, discount rate and other working capital requirement assumptions by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable industry/business data external to the Group. We assessed certain of these key assumptions with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, investments in associates and investments in redeemable instruments of associates (Cont'd)	In respect of the impairment assessments of cash generating units that containing goodwill and investments in associates using market approach, we assessed the valuation assumptions including the selection of comparable companies, recent market transactions, and liquidity discount for lack of marketability, etc. We assessed these key assumptions adopted by management with the involvement of our internal valuation experts based on our industry knowledge and independent research performed by us. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained. We independently tested, on a sample basis, the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment charges. We did not identify any material exceptions from our testing.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments, including available-for-sale financial assets and other derivative financial instruments	
Refer to Notes 3.3, 24 and 26 to the consolidated financial statements As at 31 December 2017, the Group's financial assets which were carried at fair value comprised available-for-sale financial assets and other derivative financial instruments of approximately RMB127,218 million and RMB5,624 million, respectively, of which approximately RMB77,131 million of these financial assets were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". We focused on this area due to the high degree of judgement required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation.	In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions. We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested, on a sample basis, valuation of Level 3 financial instruments as at 31 December 2017 by evaluating the underlying assumptions including discount rates, projected growth rates, marketability discount, market information of comparable companies (such as recent transactions and earnings multiples) based on our industry knowledge as well as underlying supporting documentation. We also tested, on a sample basis, the arithmetical accuracy of the valuation computation. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.

OTHER INFORMATION

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

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'Million	2016 RMB'Million
Revenues			
Value-added services		**153,983**	107,810
Online advertising		**40,439**	26,970
Others		**43,338**	17,158
	5	**237,760**	151,938
Cost of revenues	8	**(120,835)**	(67,439)
Gross profit		**116,925**	84,499
Interest income	6	**3,940**	2,619
Other gains, net	7	**20,140**	3,594
Selling and marketing expenses	8	**(17,652)**	(12,136)
General and administrative expenses	8	**(33,051)**	(22,459)
Operating profit		**90,302**	56,117
Finance costs, net	9	**(2,908)**	(1,955)
Share of profit/(loss) of associates and joint ventures	10	**821**	(2,522)
Profit before income tax		**88,215**	51,640
Income tax expense	11	**(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	12(a)	**7.598**	4.383
– diluted	12(b)	**7.499**	4.329

The notes on pages 130 to 238 are an integral part of these consolidated financial statements.

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	**72,471**	41,447
Other comprehensive income, net of tax:		
Items that may be subsequently reclassified to profit or loss		
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
Items that may not be subsequently reclassified to profit or loss		
Other fair value losses	**(50)**	(244)
	6,590	7,170
Total comprehensive income for the year	**79,061**	48,617
Attributable to:		
Equity holders of the Company	**78,218**	48,194
Non-controlling interests	**843**	423
	79,061	48,617

The notes on pages 130 to 238 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 RMB'Million	2016 RMB'Million
ASSETS			
Non-current assets			
Property, plant and equipment	16	**23,597**	13,900
Construction in progress	17	**3,163**	4,674
Investment properties		**800**	854
Land use rights	18	**5,111**	5,174
Intangible assets	19	**40,266**	36,467
Investments in associates	20	**113,779**	70,042
Investments in redeemable instruments of associates	22	**22,976**	9,627
Investments in joint ventures	23	**7,826**	630
Available-for-sale financial assets	24	**127,218**	83,806
Prepayments, deposits and other assets	25	**11,173**	7,363
Other financial assets	26	**5,159**	1,760
Deferred income tax assets	27	**9,793**	7,033
Term deposits	28	**5,365**	5,415
		376,226	246,745
Current assets			
Inventories		**295**	263
Accounts receivable	29	**16,549**	10,152
Prepayments, deposits and other assets	25	**17,110**	14,118
Other financial assets	26	**465**	1,649
Term deposits	28	**36,724**	50,320
Restricted cash	30	**1,606**	750
Cash and cash equivalents	30	**105,697**	71,902
		178,446	149,154
Total assets		**554,672**	395,899

Consolidated Statement of Financial Position

As at 31 December 2017

		As at 31 December	
		2017	2016
	Note	**RMB'Million**	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	31	**–**	–
Share premium	31	**22,204**	17,324
Shares held for share award schemes	31	**(3,970)**	(3,136)
Other reserves	32	**35,158**	23,693
Retained earnings		**202,682**	136,743
		256,074	174,624
Non-controlling interests		**21,019**	11,623
Total equity		**277,093**	186,247
LIABILITIES			
Non-current liabilities			
Borrowings	34	**82,094**	57,549
Notes payable	35	**29,363**	36,204
Long-term payables	36	**3,862**	4,935
Other financial liabilities		**2,154**	2,576
Deferred income tax liabilities	27	**5,975**	5,153
Deferred revenue	37	**2,391**	2,038
		125,839	108,455

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 RMB'Million	2016 RMB'Million
Current liabilities			
Accounts payable	38	**50,085**	27,413
Other payables and accruals	39	**29,433**	20,873
Borrowings	34	**15,696**	12,278
Notes payable	35	**4,752**	3,466
Current income tax liabilities		**8,708**	5,219
Other tax liabilities		**934**	745
Deferred revenue	37	**42,132**	31,203
		151,740	101,197
Total liabilities		**277,579**	209,652
Total equity and liabilities		**554,672**	395,899

The notes on pages 130 to 238 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 121 to 238 were approved by the Board of Directors on 21 March 2018 and were signed on its behalf:

Ma Huateng
Director

Lau Chi Ping Martin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity holders of the Company							
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non-controlling interests RMB'Million	Total equity RMB'Million
Balance at 1 January 2016	–	12,167	(1,817)	9,673	100,012	120,035	2,065	122,100
Comprehensive income								
Profit for the year	–	–	–	–	41,095	41,095	352	41,447
Other comprehensive income, net of tax:								
– share of other comprehensive income of associates	–	–	–	863	–	863	–	863
– net gains from changes in fair value of available-for-sale financial assets	–	–	–	2,929	–	2,929	–	2,929
– transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	–	(1,176)	–	(1,176)	–	(1,176)
– currency translation differences	–	–	–	4,127	–	4,127	71	4,198
– other fair value gains, net	–	–	–	356	–	356	–	356
Total comprehensive income for the year	–	–	–	7,099	41,095	48,194	423	48,617
Transactions with equity holders								
Capital injection	–	–	–	–	–	–	1,414	1,414
Employee share option schemes:								
– value of employee services	–	311	–	57	–	368	35	403
– proceeds from shares issued	–	225	–	–	–	225	–	225
Employee share award schemes:								
– value of employee services	–	3,453	–	394	–	3,847	68	3,915
– shares withheld for share award schemes	–	–	(1,936)	–	–	(1,936)	–	(1,936)
– vesting of awarded shares	–	(617)	617	–	–	–	–	–
Tax benefit from share-based payments of a subsidiary	–	–	–	897	–	897	–	897
Profit appropriations to statutory reserves	–	–	–	665	(665)	–	–	–
Dividends (Note 15)	–	–	–	–	(3,699)	(3,699)	(914)	(4,613)
Non-controlling interests arising from business combinations	–	–	–	–	–	–	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	–
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

The notes on pages 130 to 238 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 RMB'Million	2016 RMB'Million
		Year ended 31 December	
		2017	2016
	Note	**RMB'Million**	RMB'Million
Cash flows from operating activities			
Cash generated from operations	40(a)	**120,002**	76,034
Income tax paid		**(13,862)**	(10,516)
Net cash flows generated from operating activities		**106,140**	65,518
Cash flows from investing activities			
(Payments for)/proceeds from business combinations, net of cash acquired		**(21)**	1,285
Net (outflow)/inflow of cash in respect of disposals of subsidiaries		**(3)**	619
Purchase of property, plant and equipment, construction in progress and investment properties		**(12,108)**	(8,399)
Proceeds from disposals of property, plant and equipment		**28**	31
Payments for acquisition of investments in associates		**(17,528)**	(8,934)
Proceeds from disposals of investments in associates		**608**	1,107
Payments for acquisition of investments in redeemable instruments of associates		**(16,384)**	(3,324)
Proceeds from disposals of investments in redeemable instruments of associates		**507**	266
Payments for acquisition of investments in joint ventures		**(7,091)**	(62)
Proceeds from disposals of investments in joint ventures		**9**	3
Purchase of/prepayment for intangible assets		**(19,850)**	(8,849)
Purchase of/prepayment for land use rights		**(46)**	(1,506)
Payments for available-for-sale financial assets and related derivative financial instruments		**(47,716)**	(33,556)
Proceeds from disposals of available-for-sale financial assets		**4,705**	1,637
Payments for loans to investees and others		**(2,219)**	(2,994)
Proceeds from settlement of loans to investees and others		**1,533**	4,046
Payments for acquisition of other financial assets		**(995)**	–
Proceeds from settlement of other financial assets		**995**	–
Receipt from maturity of term deposits with initial terms of over three months		**86,166**	42,319
Placement of term deposits with initial terms of over three months		**(72,520)**	(57,049)
Interest received		**3,529**	1,718
Dividends received		**2,009**	719
Net cash flows used in investing activities		**(96,392)**	(70,923)

	Year ended 31 December	
	2017	2016
	RMB'Million	RMB'Million
Cash flows from financing activities		
Proceeds from short-term borrowings	**16,676**	2,387
Repayment of short-term borrowings	**(12,450)**	(1,734)
Proceeds from long-term borrowings	**33,517**	55,394
Repayment of long-term borrowings	**(5,281)**	(13,957)
Repayment of convertible bonds	**–**	(494)
Repayment of notes payable	**(3,450)**	(4,132)
Proceeds from issuance of ordinary shares	**171**	225
Shares withheld for share award schemes	**(2,232)**	(1,936)
Proceeds from issuance of additional equity of non-wholly owned subsidiaries	**6,466**	1,393
Proceeds from disposals of non-controlling interests in a non-wholly owned subsidiary	**106**	267
Payments for acquisition of non-controlling interests in non-wholly owned subsidiaries	**(927)**	(1,364)
Dividends paid to the Company's shareholders	**(5,052)**	(3,699)
Dividends paid to non-controlling interests	**(946)**	(907)
Net cash flows generated from financing activities	**26,598**	31,443
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	**(2,551)**	2,426
Cash and cash equivalents at end of the year	**105,697**	71,902

The notes on pages 130 to 238 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1 GENERAL INFORMATION

Tencent Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2004.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the provision of value-added services ("VAS") and online advertising services to users in the People's Republic of China (the "PRC").

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

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

Under a series of contractual arrangements (collectively, "Structure Contracts") entered into among the Company, Tencent Technology, Tencent Computer and the Registered Shareholders, the Company is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Tencent Computer. In summary, the Structure Contracts provide the Company through Tencent Technology with, among other things:

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

1 GENERAL INFORMATION (Cont'd)

As a result, Tencent Computer is accounted for as a controlled structured entity (see also Note 2.2(a) and Note 45) and the formation of the Group in 2000 was accounted for as a business combination between entities under common control under a method similar to the uniting of interests method for recording all assets and liabilities at predecessor carrying amounts. This approach was adopted because in management's belief it best reflected the substance of the formation.

Similar Structure Contracts were also executed for other PRC operating companies established by the Group similar to Tencent Computer subsequent to 2000. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 45.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments, which are carried at fair value.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Amendments to standards adopted by the Group

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

IAS 7 (amendment)	Disclosure initiative
IAS 12 (amendment)	Recognition of deferred tax assets for unrealised losses
IFRS 12 (amendment)	Clarification of disclosure requirement of interests in entities classified as held for sale

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

A number of new standards and amendments to standards are not effective for the financial year beginning 1 January 2017, and have not been early adopted by the Group in preparing the consolidated financial statements. In respect of IFRS 9 "Financial instruments", IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Lease", none of these is expected to have a significant effect on the consolidated financial statements of the Group except IFRS 9, details of which are set out below.

(i) IFRS 9 "Financial instruments"

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

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- **Classification and measurement of financial instruments**

  The Group's 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 change of these 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 to financial assets at fair value through other comprehensive income and not recycling to income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

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

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

- **Classification and measurement of financial instruments (Cont'd)**

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

- **Derivatives and hedging activities**

  The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's established risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, given the standard introduces a more principle-based approach. The Group has confirmed that its current hedge relationships will be qualified as continuing hedges upon the adoption of IFRS 9.

- **Impairment of financial assets**

  The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects changes in the loss allowance for account receivables to be insignificant.

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

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Early adoption is permitted. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

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

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

IFRS 15 "Revenue from contracts with customers" will replace IAS 18 "Revenue" and IAS 11 "Construction contracts" and the related interpretation's on revenue recognition.

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a five step approach: (i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognize revenue when performance obligation is satisfied. IFRS 15 also provides specific guidance on contract costs and license arrangements. It also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Based on the management's assessment on the adoption of IFRS 15, the Group expects the effects of applying the new standard on the Group's financial statements to be insignificant.

IFRS 15 must be applied for financial years commencing on or after 1 January 2018 and earlier adoption is permitted. The Group will apply the full retrospective approach upon the adoption since 1 January 2018.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

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

(iii) IFRS 16 "Lease"

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

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

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

2.2 Subsidiaries

(a) Consolidation

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(a) Consolidation (Cont'd)

(i) Business combinations (Cont'd)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable IFRSs.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.2 Subsidiaries (Cont'd)

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 45(e)), a controlled structured entity, is stated at cost in "Contribution to Share Scheme Trust", and will be transferred to the "Shares held for share award schemes" under equity when the contribution is used for the acquisition of the Company's shares.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiaries in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.3 Associates (Cont'd)

The Group's share of its associates' post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method, including associates and joint arrangements (Note 2.4), are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains/(losses), net" in the consolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. A full gain or loss is recognised when a transaction involves a business whereas a partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are held by a subsidiary. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.4 Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profit or loss and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term receivables that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. A full gain or loss is recognised when a transaction involves a business whereas a partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are held by a subsidiary. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Investments in associates/joint ventures achieved in stages

The cost of associates/joint ventures acquired in stages, except for the change from an associate to a joint venture, is measured as the sum of the fair value of the interests previously held plus the fair value of any additional consideration transferred as of the date when it becomes associate/joint venture. A gain or loss on re-measurement of the previously held interests is taken to the consolidated incomes statement. Any other comprehensive income recognised in prior periods in relation to the previously held interests is also taken to the consolidated income statement. Any acquisition-related costs are expensed in the period in which the costs are incurred.

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and certain of its overseas subsidiaries is United States Dollars ("USD"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("RMB"), unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.8 Foreign currency translation (Cont'd)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.9 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charges. Historical costs includes expenditure that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

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

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

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

Construction in progress represents buildings under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.14).

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.10 Investment properties

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

Depreciation is calculated on the straight-line method to allocate their costs net of their residual values over their estimated useful lives of 20-50 years. Investment properties' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties' carrying amounts are written down immediately to their recoverable amounts if their carrying amounts are greater than their estimated recoverable amounts.

2.11 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated income statement on a straight-line basis over the remaining period of the lease.

2.12 Intangible assets

(a) Goodwill

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.12 Intangible assets (Cont'd)

(b) Licensed online contents

The licensed online contents mainly include video and music contents. They are initially recognised and measured at cost or estimated fair value as acquired through business combinations. Licensed online contents are amortised using a straight-line method or an accelerated method which reflects the estimated consumption patterns.

(c) Other intangible assets

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

Other intangible assets are amortised over their estimated useful lives (generally three to ten years) using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2.13 Shares held for share award schemes

The consideration paid by the Share Scheme Trust (see Note 45(e)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award schemes" and the amount is deducted from total equity.

When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award schemes", with a corresponding adjustment made to "Share premium".

2.14 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.15 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.15 Financial assets (Cont'd)

(b) Recognition and measurement

Regular way purchases and sales of investments are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income.

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

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

2.16 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.17 Impairment of financial assets

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

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

(a) Assets carried at amortised cost

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.17 Impairment of financial assets (Cont'd)

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

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

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

2.18 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (ii) hedges of a particular risk associated with the cash flows of a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); or (iii) hedges of a net investment in a foreign operation (net investment hedges).

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

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

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

2.19 Inventories

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

2.20 Accounts receivable

Accounts receivable are amounts due from customers or agents for services performed or merchandise sold in the ordinary course of business. If collection of accounts receivable is expected in one year or less, they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.21 Cash and cash equivalents and restricted cash

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

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

2.23 Accounts payable

Accounts payable are obligations to pay for services or goods that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 Put option liabilities

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.25 Financial guarantee contracts

The financial guarantee contract of the Group is a contract that represents guarantee provided by the Group in respect of a put arrangement granted by an investee to the employees of its subsidiary.

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

2.26 Borrowings and notes payable

Borrowings and notes payable issued by the Group are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over their terms using the effective interest method.

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes payable are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the end of the reporting period.

General and specific finance costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. During the year ended 31 December 2017, finance cost capitalised was insignificant to the Group.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.27 Compound financial instruments

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

The Group either (i) accounts for different components of the compound financial instruments separately or (ii) designates the entire financial instruments as financial assets/liabilities at fair value through profit or loss. The host component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the embedded derivatives. The subsequent measurement of the host component and embedded derivatives follow the respective accounting policy of financial instruments as stated in Notes 2.15 and 2.18.

2.28 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting nor taxable profit or loss is affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.28 Current and deferred income tax (Cont'd)

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option schemes and share award schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments of the Group is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share premium under equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Employee benefits (Cont'd)

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

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

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

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

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

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.29 Employee benefits (Cont'd)

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

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

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

2.30 Provisions

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.31 Revenue recognition

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

(a) VAS

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

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

The Group sells the prepaid credits through various channels such as sales agents appointed by the Group, telecommunication operators, third party platform providers, broadband service providers and Internet cafes, etc. The end users can register the prepaid credits to their user accounts on the Group's online platforms and then gain access to the Group's paid online products or services. Receipts from the sales of prepaid credits are deferred and recorded as "Deferred revenue" in the consolidated statement of financial position (see Note 37).

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.31 Revenue recognition (Cont'd)

(a) VAS (Cont'd)

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

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

Determining whether revenues of the Group should be reported gross or net is based on a continuing assessment of various factors. The primary factor is whether the Group acting as the principal in offering services to the customer or as an agent in the transaction. The Group has determined that it is acting as the principal in offering services wherever the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; and (iv) has involvement in the determination of product or service specifications. The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different VAS offerings.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.31 Revenue recognition (Cont'd)

(b) Online advertising

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

The Group recognises (i) revenue from performance-based advertising when relevant specific performance measures (such as delivery of pay-for-click, pay-for-download etc.) are fulfilled; and (ii) revenue from display-based advertising on number of display/impression basis or ratably over the respective contractual term with the advertisers or their advertising agencies, depending on the contractual measures, when the related advertisements are displayed.

(c) Other revenues

The Group's other revenues are primarily derived from provision of payment related services for individual and corporate users, cloud services and others. The Group recognises revenue when the service is rendered and the underlying transaction is completed.

2.32 Interest income

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont'd)

2.33 Dividend income

Dividends are recognised as income when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profit. However, the investment may need to be tested for impairment as a consequence.

2.34 Government grants/subsidies

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

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

2.35 Leases

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

2.36 Dividends distribution

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

2.37 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criterias are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

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

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

As at 31 December 2017, the Group's major monetary assets and liabilities that exposed to foreign exchange risk are listed below:

	USD denominated RMB'Million	Non-USD denominated RMB'Million
As at 31 December 2017		
Monetary assets, current	**13,795**	**1,563**
Monetary assets, non-current	**1,309**	**–**
Monetary liabilities, current	**(2,747)**	**(15,744)**
Monetary liabilities, non-current	**(1,833)**	**(5,115)**
	10,524	**(19,296)**
As at 31 December 2016		
Monetary assets, current	8,606	1,035
Monetary liabilities, current	(3,365)	(177)
Monetary liabilities, non-current	(276)	(5,470)
	4,965	(4,612)

During the year ended 31 December 2017, the Group reported exchange gains of approximately RMB152 million (2016: exchange gains of approximately RMB212 million) within "Finance costs, net" in the consolidated income statement.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

At 31 December 2017, management considers that any reasonable changes in foreign exchange rates of the above currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective Group's subsidiaries' function currency are considered to be insignificant, given the exchange rate peg between HKD and USD. Accordingly, no sensitivity analysis is presented for foreign exchange risk (2016: Nil).

(ii) Price risk

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

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of available-for-sale financial assets at the end of each reporting period. If equity prices of the respective instruments held by the Group had been 5% (2016: 5%) higher/lower as at 31 December 2017, the other comprehensive income would have been approximately RMB4,069 million (2016: RMB3,879 million) higher/lower.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rates and the Group has no significant interest-bearing assets except for loans to investees and investees' shareholders, term deposits with initial terms of over three months, restricted cash and cash and cash equivalents, details of which have been disclosed in Notes 25, 28 and 30.

The Group's exposure to changes in interest rates is also attributable to its borrowings and notes payable, details of which have been disclosed in Notes 34 and 35, which representing a substantial portion of the Group's debts. Borrowings and notes payable carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

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

During the year ended 31 December 2017, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its borrowings carried at floating rates. Under these interest rate swap contracts, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates and were qualified as hedging accounting. The Group's outstanding interest rate swap contracts as at 31 December 2017 have been detailed in Note 26.

As at 31 December 2017 and 2016, management considers that any reasonable changes in the interest rates would not result in a significant change in the Group's results as the Group's exposure to cash flow interest-rate risk arising from its borrowings and notes payable carried at floating rates after considering the effect of hedging is considered to be insignificant. Accordingly, no sensitivity analysis is presented for interest rate risk.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits placed with banks and financial institutions, other debt investments, as well as accounts and other receivables. The carrying amount of each class of these financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets. To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

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

The Group's online advertising that are sales to/through advertising agencies or directly to the advertisers at term of full advances, partial advances or sales on credit according to the Group's credit policies. The credit period granted to the customers is usually not more than 90 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors. Provisions are made for past due balances when management considers the loss from the customers is likely. The Group's historical experience in collection of receivables falls within the recorded allowances.

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

In view of the history of co-operation with these third party platform providers and telecommunication operators, and the sound financial position and collection history of receivables due from these counterparties, management believes that the credit risk inherent in the Group's outstanding accounts receivable balances from these counterparties is low (see Note 29 for details).

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date.

	Less than 1 year RMB'Million	Between 1 and 2 years RMB'Million	Between 2 and 5 years RMB'Million	Over 5 years RMB'Million	Total RMB'Million
At 31 December 2017					
Notes payable	**5,892**	**13,832**	**10,757**	**7,492**	**37,973**
Long-term payables	**–**	**2,345**	**905**	**734**	**3,984**
Borrowings	**18,190**	**10,127**	**71,663**	**6,109**	**106,089**
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	**65,651**	**–**	**–**	**–**	**65,651**
	89,733	**26,304**	**83,325**	**14,335**	**213,697**
At 31 December 2016					
Notes payable	4,738	6,444	26,603	8,224	46,009
Long-term payables	–	2,005	2,178	917	5,100
Borrowings	13,520	6,464	51,110	3,367	74,461
Accounts payable, other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals)	37,904	–	–	–	37,904
	56,162	14,913	79,891	12,508	163,474

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

Capital refers to equity and external debts (including borrowings and notes payable). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase the Company's shares or raise/repay debts.

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Borrowings (Note 34)	**97,790**	69,827
Notes payable (Note 35)	**34,115**	39,670
Total debts	**131,905**	109,497
Adjusted EBITDA (Note)	**95,861**	66,863
Total debts/Adjusted EBITDA ratio	**1.38**	1.64

Note:

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

The movement in the ratio is mainly caused by higher adjusted EBITDA compared to prior financial year.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'Million	Level 2 RMB'Million	Level 3 RMB'Million	Total RMB'Million
As at 31 December 2017				
Available-for-sale financial assets	**53,574**	**331**	**73,313**	**127,218**
Other financial assets	**–**	**1,806**	**3,818**	**5,624**
Other financial liabilities	**–**	**–**	**2,154**	**2,154**
As at 31 December 2016				
Available-for-sale financial assets	19,995	508	63,303	83,806
Other financial assets	–	1,113	2,296	3,409
Other financial liabilities	–	–	2,576	2,576

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

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

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

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

Specific valuation techniques used to value financial instruments include:

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

During the year ended 31 December 2017, there was no transfer between level 1 and 2 for recurring fair value measurements. For transfers in and out of level 3 measurements see the following table, which presents the changes of financial instruments in level 3 instruments for the years ended 31 December 2017 and 2016:

	Financial assets		Financial liabilities	
	2017	2016	**2017**	2016
	RMB'Million	RMB'Million	**RMB'Million**	RMB'Million
Opening balance	**65,599**	27,947	**2,576**	588
Additions	**31,795**	30,757	**–**	2,557
Disposals and transfers/settlements	**(25,647)**	(526)	**–**	(491)
Changes in fair value	**10,247**	5,651	**(271)**	(98)
Impairment provision	**(581)**	(708)	**–**	–
Currency translation differences	**(4,282)**	2,478	**(151)**	20
Closing balance	**77,131**	65,599	**2,154**	2,576

3 FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

Valuation processes of the Group (Level 3)

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

The components of the level 3 instruments mainly include investments in private investment funds and unlisted companies, convertible bonds and other financial instruments. As these instruments are not traded in an active market, their fair values have been determined using various applicable valuation techniques, including discounted cash flows approach, comparable transactions approach, and other option pricing models, etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimates of weighted average cost of capital (WACC), recent market transactions, discount for lack of marketability and other exposure etc. Other financial liabilities include guarantee provided by the Group on certain put arrangements of an associate and put options issued by the Group to certain investors of the associate, at a pre-determined pricing formula. The fair value of these instruments determined by the Group requires significant judgement, including the likelihood of non-performing by the investee company, financial performance of the investee company, market value of comparable companies as well as discount rate, etc.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

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

As mentioned in Note 2.31(a), the end users purchase certain virtual products/items provided on the Group's online platforms and the relevant revenue is recognised based on the estimated lifespans of the virtual products/items. The estimated lifespans of different virtual products/items are determined by the management based on either the expected users' relationship periods or the stipulated period of validity of the relevant virtual products/items depending on the respective terms of virtual products/items.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

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

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

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

(c) Fair value measurement of available-for-sale financial assets and other financial assets

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

(d) Share-based compensation arrangements

As mentioned in Note 2.29(c), the Group has granted share options to its employees and other qualifying participants. The directors have adopted the Binomial Model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Binomial Model (Note 33).

The fair value of share options granted to employees and other qualifying participants determined using the Binomial Model was approximately HKD2,691 million (equivalent to approximately RMB2,373 million) in 2017 (2016: HKD668 million (equivalent to approximately RMB560 million)).

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2017, the Expected Retention Rate of the Group and its wholly-owned subsidiaries was assessed to be 88%-97% (2016: 88%-96%).

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax in the period in which such determination is made.

5 SEGMENT INFORMATION

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

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

- VAS;
- Online advertising; and
- Others.

"Others" primarily comprises payment related services for individual and corporate users, cloud services and other services.

5 SEGMENT INFORMATION (Cont'd)

The chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance income/(costs), net, share of profit/(loss) of associates and joint ventures and income tax expense are also not allocated to individual operating segment.

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

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in these consolidated financial statements. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

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

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

5 SEGMENT INFORMATION (Cont'd)

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

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

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in Mainland China. During the years ended 31 December 2017 and 2016, the place of incorporation on the total revenues is as follows:

	2017	2016
	RMB'Million	RMB'Million
Revenues		
– Mainland China	**229,767**	144,371
– Others	**7,993**	7,567
	237,760	151,938

5 SEGMENT INFORMATION (Cont'd)

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Operating assets		
– Mainland China	**222,714**	175,642
– Others	**60,159**	56,152
Investments		
– Mainland China and Hong Kong	**158,474**	108,715
– North America	**52,392**	22,310
– Europe	**34,276**	21,645
– Asia excluding Mainland China and Hong Kong	**26,407**	11,322
– Others	**250**	113
	554,672	395,899

As at 31 December 2017, the total non-current assets other than financial instruments and deferred tax assets located in Mainland China and other regions amounted to RMB159,563 million (2016: RMB117,415 million) and RMB42,421 million (2016: RMB19,115 million), respectively.

All the revenues derived from any single external customer were less than 10% of the Group's total revenues during the years ended 31 December 2017 and 2016.

6 INTEREST INCOME

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

7 OTHER GAINS, NET

	2017 RMB'Million	2016 RMB'Million
Gains on disposals and deemed disposals of investee companies (Note (a))	**13,518**	6,966
Fair value gains on other financial instruments (Note 26)	**4,298**	658
Subsidies and tax rebates (Note (b))	**3,971**	380
Impairment provision for investee companies and intangible assets from acquisition (Note (c))	**(2,794)**	(4,809)
Dividend income	**1,713**	563
Donations to Tencent Charity Funds	**(820)**	(570)
Others	**254**	406
	20,140	3,594

Note:

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

(i) 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 initial public offerings (Note 20);

(ii) 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 initial public offering;

(iii) net gains of approximately RMB493 million on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 20). These associates are principally engaged in Internet-related business; and

(iv) aggregate net gains of approximately RMB3,626 million on disposal, acquisition achieved in stages or partial disposal of various investments of the Group.

(b) There are no unfulfilled conditions or contingencies related to these subsidies and tax rebates.

7 OTHER GAINS, NET (Cont'd)

Note: (Cont'd)

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

	2017 RMB'Million	2016 RMB'Million
Investments in associates (Note 20)	**1,277**	2,117
Investments in redeemable instruments of associates (Note 22)	**607**	1,298
Available-for-sale financial assets (Note 24)	**671**	1,028
Others (Note 19)	**239**	366
	2,794	4,809

8 EXPENSES BY NATURE

	2017 RMB'Million	2016 RMB'Million
Employee benefits expenses (Note (a) and Note 13)	**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 (Note (b) and Note 19)	**18,622**	8,930
Depreciation of property, plant and equipment (Note 16)	**4,850**	3,699
Auditor's remuneration		
– Audit services	**76**	46
– Audit-related services	**15**	13
– Non-audit services	**21**	16

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.

9 FINANCE COSTS, NET

	2017 RMB'Million	2016 RMB'Million
Interest and related expenses	3,060	2,167
Exchange gains	(152)	(212)
	2,908	1,955

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

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

	2017 RMB'Million	2016 RMB'Million
Share of profit/(loss) of associates (Note 20)	730	(2,549)
Share of profit of joint ventures (Note 23)	91	27
	821	(2,522)

11 TAXATION

(a) Income tax expense

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

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

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

(ii) Hong Kong profit tax

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

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

(iii) PRC corporate income tax

PRC corporate income tax has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available 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 corporate income tax 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 corporate income tax 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 corporate income tax 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 corporate income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation, after offsetting tax losses generated in prior years.

(iv) Corporate income tax in other countries

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

(v) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to 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.

11 TAXATION (Cont'd)

(a) Income tax expense (Cont'd)

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

	2017 RMB'Million	2016 RMB'Million
Current income tax	**15,154**	10,791
Deferred income tax (Note 27)	**590**	(598)
	15,744	10,193

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year (2016: 25%), being the tax rate of the major subsidiaries of the Group before enjoying preferential tax treatments, as follows:

	2017 RMB'Million	2016 RMB'Million
Profit before income tax	**88,215**	51,640
Share of (profit)/loss of associates and joint ventures	**(821)**	2,522
	87,394	54,162
Tax calculated at a tax rate of 25%	**21,848**	13,540
Effects of different tax rates applicable to different subsidiaries of the Group	**(10,442)**	(6,191)
Effects of tax holiday on assessable profit of certain subsidiaries	**(715)**	(496)
Income not subject to tax	**(25)**	(112)
Expenses not deductible for tax purposes	**1,087**	1,157
Withholding tax on earnings expected to be remitted by subsidiaries (Note 27)	**3,150**	1,700
Unrecognised deferred income tax assets	**1,004**	686
Others	**(163)**	(91)
Income tax expense	**15,744**	10,193

11 TAXATION (Cont'd)

(b) Value-added tax and other taxes

The operations of the Group are also mainly subject to the following taxes in the PRC:

Category	Tax rate	Basis of levy
Value-added tax ("VAT")	6-17%	Sales value of goods sold and services fee income, offsetting by VAT on purchases
Construction fee for cultural undertakings	3%	Taxable advertising income
City construction tax	7%	Net VAT payable amount
Educational surcharge	5%	Net VAT payable amount

12 EARNINGS PER SHARE

(a) Basic

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

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

(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.

12 EARNINGS PER SHARE (Cont'd)

(b) Diluted (Cont'd)

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

13 EMPLOYEE BENEFITS EXPENSES

	2017 RMB'Million	2016 RMB'Million
Wages, salaries and bonuses	**24,194**	15,626
Contributions to pension plans (Note)	**1,934**	1,426
Share-based compensation expenses	**6,253**	4,455
Welfare, medical and other expenses (Note)	**2,400**	1,841
Training expenses	**85**	85
	34,866	23,433

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended 31 December 2017 and 2016 are listed below:

	Percentage
Pension insurance	12.0 - 20.0%
Medical insurance	6.0 - 11.5%
Unemployment insurance	0.5 - 1.5%
Housing fund	10.0 - 12.0%

(a) Senior management's emoluments

Senior management includes directors, chief executive officer ("CEO"), president and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the CEO, whose details have been reflected in Note 14(a), is as follows:

	2017	2016
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**285,322**	227,989
Contributions to pension plans	**891**	826
Share-based compensation expenses	**1,174,316**	776,788
	1,460,529	1,005,603

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

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

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

	Number of individuals	
	2017	2016
Emolument bands		
HKD800,000 – HKD15,000,000	**1**	1
HKD15,000,001 – HKD40,000,000	**–**	1
HKD40,000,001 – HKD65,000,000	**2**	4
HKD65,000,001 – HKD115,000,000	**5**	4
HKD115,000,001 – HKD165,000,000	**2**	–
HKD215,000,001 – HKD615,000,000	**2**	2

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director during the year 2017 (2016: one). All of these individuals including that one director (Note 14(a)) have not received any emolument from the Group as an inducement to join the Group during the years ended 31 December 2017 and 2016. The emoluments paid/payable to the remaining four (2016: four) individuals during the year were as follows:

	2017	2016
	RMB'000	RMB'000
Salaries and bonuses	**325,416**	316,874
Contributions to pension plans	**10,909**	758
Share-based compensation expenses	**805,807**	608,757
Allowances and benefits in kind	**39**	33
	1,142,171	926,422

13 EMPLOYEE BENEFITS EXPENSES (Cont'd)

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

The emoluments of the above four individuals (2016: four) fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
HKD228,500,001 – HKD229,000,000	**2**	–
HKD231,000,001 – HKD231,500,000	**–**	2
HKD262,500,001 – HKD263,000,000	**–**	1
HKD310,500,001 – HKD311,000,000	**–**	1
HKD430,000,001 – HKD430,500,000	**1**	–
HKD477,500,001 – HKD478,000,000	**1**	–

14 BENEFITS AND INTERESTS OF DIRECTORS

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

The remuneration of every director and the CEO is set out below:

During the year ended 31 December 2017:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,176	44,656	105	–	–	45,937
Lau Chi Ping Martin	1,176	31,580	–	204,441	65	237,262
Iain Ferguson Bruce	920	–	–	3,811	–	4,731
Ian Charles Stone	836	–	–	3,811	–	4,647
Li Dong Sheng	627	–	–	1,905	–	2,532
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun	627	–	–	1,406	–	2,033
	5,362	76,236	105	215,374	65	297,142

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

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

During the year ended 31 December 2016:

Name of director	Fees RMB'000	Salaries and bonuses RMB'000	Contributions to pension plans RMB'000	Share-based compensation expenses RMB'000	Allowances and benefits in kind RMB'000 (Note (i))	Total RMB'000
Ma Huateng (CEO)	1,249	37,459	94	–	19	38,821
Lau Chi Ping Martin	1,249	26,832	–	93,875	61	122,017
Iain Ferguson Bruce	895	–	–	3,001	–	3,896
Ian Charles Stone	716	–	–	2,969	–	3,685
Li Dong Sheng	581	–	–	1,438	–	2,019
Jacobus Petrus (Koos) Bekker	–	–	–	–	–	–
Charles St Leger Searle	–	–	–	–	–	–
Yang Siu Shun (Note (iv))	313	–	–	378	–	691
	5,003	64,291	94	101,661	80	171,129

Note:

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

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

(iii) No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

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

14 BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

(b) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(d) Information about loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15 DIVIDENDS

The dividends 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 annual general meeting of the Company to be held on 16 May 2018 or any adjournment thereof. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2017						
Cost	4,501	20,374	902	31	1,787	27,595
Accumulated depreciation and impairment	(807)	(11,610)	(544)	(18)	(807)	(13,786)
Currency translation differences	–	4	19	–	68	91
Net book amount	3,694	8,768	377	13	1,048	13,900
Year ended 31 December 2017						
Opening net book amount	3,694	8,768	377	13	1,048	13,900
Business combinations	–	–	2	–	2	4
Additions	4,372	9,678	260	10	323	14,643
Disposals	(7)	(32)	(5)	–	(3)	(47)
Depreciation	(228)	(4,243)	(138)	(6)	(235)	(4,850)
Currency translation differences	–	(30)	(3)	–	(20)	(53)
Closing net book amount	7,831	14,141	493	17	1,115	23,597
At 31 December 2017						
Cost	8,852	28,504	1,136	41	2,090	40,623
Accumulated depreciation and impairment	(1,021)	(14,337)	(659)	(24)	(1,023)	(17,064)
Currency translation differences	–	(26)	16	–	48	38
Net book amount	7,831	14,141	493	17	1,115	23,597

16 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Buildings RMB'Million	Computer equipment RMB'Million	Furniture and office equipment RMB'Million	Motor vehicles RMB'Million	Leasehold improvements RMB'Million	Total RMB'Million
At 1 January 2016						
Cost	3,293	15,165	806	25	1,696	20,985
Accumulated depreciation and impairment	(699)	(9,160)	(432)	(16)	(694)	(11,001)
Currency translation differences	–	(46)	10	–	25	(11)
Net book amount	2,594	5,959	384	9	1,027	9,973
Year ended 31 December 2016						
Opening net book amount	2,594	5,959	384	9	1,027	9,973
Business combinations	–	54	6	–	33	93
Additions	1,372	5,877	120	10	245	7,624
Disposals	–	(20)	(8)	(1)	(22)	(51)
Depreciation	(133)	(3,150)	(134)	(5)	(277)	(3,699)
Impairment	–	(2)	–	–	–	(2)
Transfer to investment properties	(139)	–	–	–	(1)	(140)
Currency translation differences	–	50	9	–	43	102
Closing net book amount	3,694	8,768	377	13	1,048	13,900
At 31 December 2016						
Cost	4,501	20,374	902	31	1,787	27,595
Accumulated depreciation and impairment	(807)	(11,610)	(544)	(18)	(807)	(13,786)
Currency translation differences	–	4	19	–	68	91
Net book amount	3,694	8,768	377	13	1,048	13,900

During the year ended 31 December 2017, depreciation of RMB3,892 million (2016: RMB2,591 million), RMB134 million (2016: RMB132 million) and RMB824 million (2016: RMB976 million) were charged to cost of revenues, selling and marketing expenses and general and administrative expenses, respectively.

17 CONSTRUCTION IN PROGRESS

	2017 RMB'Million	2016 RMB'Million
Opening net book amount	**4,674**	4,248
Additions	**3,204**	2,559
Transfer to property, plant and equipment	**(4,682)**	(1,710)
Transfer to investment properties	**(31)**	(440)
Currency translation differences	**(2)**	17
Closing net book amount	**3,163**	4,674

As at 31 December 2017, construction in progress mainly comprised office buildings and data centres under construction located in the PRC.

18 LAND USE RIGHTS

	2017 RMB'Million	2016 RMB'Million
Opening net book amount	**5,174**	2,293
Additions	**46**	2,976
Amortisation	**(109)**	(95)
Closing net book amount	**5,111**	5,174

The land use rights represent prepaid operating lease payments in respect of land in the PRC with remaining lease period of 38 to 49 years. During the year ended 31 December 2017, all of the amortisation was charged to general and administrative expenses.

19 INTANGIBLE ASSETS

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

19 INTANGIBLE ASSETS (Cont'd)

	Goodwill RMB'Million	Computer software and technology RMB'Million	Game licences RMB'Million	Licensed online contents RMB'Million	Copyrights RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2016							
Cost	7,306	2,087	2,196	8,598	754	836	21,777
Accumulated amortisation and impairment	(162)	(860)	(1,508)	(4,935)	(495)	(387)	(8,347)
Currency translation differences	11	(8)	9	2	–	(5)	9
Net book amount	7,155	1,219	697	3,665	259	444	13,439
Year ended 31 December 2016							
Opening net book amount	7,155	1,219	697	3,665	259	444	13,439
Business combinations	15,896	28	1	794	–	2,204	18,923
Additions	–	569	1,331	11,074	125	148	13,247
Disposals	(45)	(38)	(9)	–	(4)	(1)	(97)
Amortisation	–	(261)	(396)	(7,772)	(139)	(362)	(8,930)
Impairment provision	(277)	–	–	–	(2)	(87)	(366)
Currency translation differences	198	18	11	15	3	6	251
Closing net book amount	22,927	1,535	1,635	7,776	242	2,352	36,467
At 31 December 2016							
Cost	23,157	2,643	3,515	20,880	869	3,147	54,211
Accumulated amortisation and impairment	(439)	(1,118)	(1,900)	(13,121)	(630)	(796)	(18,004)
Currency translation differences	209	10	20	17	3	1	260
Net book amount	22,927	1,535	1,635	7,776	242	2,352	36,467

19 INTANGIBLE ASSETS (Cont'd)

During the year ended 31 December 2017, amortisation of RMB17,837 million (2016: RMB8,277 million) and RMB785 million (2016: RMB653 million) were charged to cost of revenues and general and administrative expenses, respectively.

During the year ended 31 December 2017, goodwill and other identifiable intangible assets of certain acquired business have been impaired to the extent of RMB239 million (2016: RMB366 million) (Note 7) as a result of significant decline in revenues and unsatisfactory operating performance of these business.

Impairment tests for goodwill

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

For online game business, management calculates the fair value less costs to sell based on ratios of EV (enterprise value) divided by EBITDA (earnings before interest, tax, depreciation and amortisation) of several comparable public companies (ranging within 16-23x) multiplied by the EBITDA of the related CGU and discounted for the lack of marketability at a range of 10% to 20%. The comparable public companies are chosen based on factors such as industry similarity, company size, profitability and financial risks.

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

20 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Investments in associates		
– Listed entities	**60,935**	38,516
– Unlisted entities	**52,844**	31,526
	113,779	70,042

	2017	2016
	RMB'Million	RMB'Million
At beginning of the year	**70,042**	60,171
Additions (Note (i), (ii), (iii) and (iv))	**19,122**	9,900
Deemed disposal gains (Note 7(a))	**9,892**	2,091
Share of profit/(loss) of associates (Note 10)	**730**	(2,549)
Share of other comprehensive income of associates	**907**	863
Dividends	**(312)**	(151)
Transfers (Note (v))	**20,825**	(1,092)
Disposals	**(253)**	(614)
Impairment provision (Note (vi))	**(1,277)**	(2,117)
Currency translation differences	**(5,897)**	3,540
At end of the year	**113,779**	70,042

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Note:

(i) 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 approximately 7% of its equity interests, on an outstanding basis, at a cash consideration equivalent to approximately RMB3,993 million.

(ii) During the year ended 31 December 2017, the Group entered into a share purchase agreement with an associate which operates an online ride-hailing platform in Asia other than China, to subscribe for approximately 10% of its equity interests, on an outstanding basis, at a cash consideration equivalent to approximately RMB2,646 million.

(iii) During the year ended 31 December 2017, the Group entered into share purchase agreements with an associate which is mainly engaged in online movie ticketing business to subscribe for 11.23% of its equity interests, on an outstanding basis, at a total consideration equivalent to approximately RMB1,897 million.

(iv) The Group also acquired certain other associates and made additional investments in existing associates, with an aggregate amount of RMB10,586 million during the year ended 31 December 2017. These associates are principally engaged in online game business and other Internet-related businesses.

(v) 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, thus resulting 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 an investment in an associate since 1 January 2017.

(vi) 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 changes in business models of the affected associates.

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

20 INVESTMENTS IN ASSOCIATES (Cont'd)

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

	Assets RMB'Million	Liabilities RMB'Million	Revenues RMB'Million	Profit/ (loss) from continuing operation RMB'Million	Other comprehensive income RMB'Million	Total comprehensive income/(loss) RMB'Million	Fair value of listed companies as at 31 December RMB'Million
2017							
Listed entities	**103,999**	**43,064**	**84,022**	**505**	**845**	**1,350**	**156,968**
Non-listed entities	**128,028**	**75,184**	**25,659**	**225**	**62**	**287**	
	232,027	**118,248**	**109,681**	**730**	**907**	**1,637**	
2016							
Listed entities	71,894	33,378	52,576	(1,141)	484	(657)	68,565
Non-listed entities	56,371	24,846	11,455	(1,408)	379	(1,029)	
	128,265	58,224	64,031	(2,549)	863	(1,686)	

Management has assessed the level of influence that the Group exercises on certain associates with the respective shareholding below 20%, with a total carrying amount of RMB56,768 million as at 31 December 2017 (2016: RMB37,131 million). Management determined that it has significant influence thereon through the board representation or other arrangements made. Consequently, these investments have been classified as associates.

20 INVESTMENTS IN ASSOCIATES (Cont'd)

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

Name of entity	Place of incorporation	Interest held indirectly	Principal activities/ place of operation
JD.com	Cayman Islands	18.13%	Online direct sales and online marketplace businesses/the PRC

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Summarised consolidated balance sheet		
Current assets	**115,029**	106,932
Non-current assets	**69,026**	53,891
Current liabilities	**118,251**	104,843
Non-current liabilities	**13,416**	14,665
Redeemable non-controlling interests	**–**	7,057
Shareholders' equity	**52,388**	34,258

	Year ended 31 December	
	2017	2016
	RMB'Million	RMB'Million
Summarised consolidated statements of operations		
Net revenues	**362,332**	260,186
Loss from operations	**(835)**	(2,081)
Profit/(loss) before tax	**121**	(3,294)
Net loss	**(12)**	(3,474)

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

20 INVESTMENTS IN ASSOCIATES (Cont'd)

Transactions with associates

(i) Transactions related to online services

During the year ended 31 December 2017, the Group had undertaken transactions relating to provision of online traffic, online advertising and other online services to certain associates (including JD.com), under but not limited to certain co-operation arrangements.

The revenues recorded by the Group from the aforesaid co-operation arrangements during the years ended 31 December 2017 and 2016 were considered to be insignificant.

(ii) Other transactions

The Group placed certain deposits in an associate in the ordinary course of business. During the year ended and as at 31 December 2017, the balances of these deposits and interest income thereon were considered to be insignificant.

21 FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2017, the financial instruments of the Group is analysed as follows:

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Financial assets classified as loans and receivables:		
Investments in redeemable instruments of associates (Note 22)	**22,976**	9,627
Accounts receivable (Note 29)	**16,549**	10,152
Deposits and other receivables (Note 25)	**9,486**	9,267
Term deposits (Note 28)	**42,089**	55,735
Restricted cash (Note 30(b))	**1,606**	750
Cash and cash equivalents (Note 30(a))	**105,697**	71,902
	198,403	157,433
Financial liabilities at amortised cost:		
Notes payable (Note 35)	**34,115**	39,670
Long-term payables (Note 36)	**3,862**	4,935
Accounts payable (Note 38)	**50,085**	27,413
Other payables and accruals (excluding prepayments received from customers and others, staff costs and welfare accruals) (Note 39)	**15,566**	10,491
Borrowings (Note 34)	**97,790**	69,827
	201,418	152,336

As at 31 December 2017, financial assets classified as available-for-sale were RMB127,218 million (2016: RMB83,806 million) (Note 24).

As at 31 December 2017, financial assets and liabilities measured at fair value included other financial assets (Note 26) and other financial liabilities of RMB5,624 million (2016: RMB3,409 million) and RMB2,154 million (2016: RMB2,576 million), respectively.

22 INVESTMENTS IN REDEEMABLE INSTRUMENTS OF ASSOCIATES

As at 31 December 2017, the Group's investments in redeemable instruments of associates of RMB22,976 million (2016: RMB9,627 million) were stated at amortised cost less impairment provision. These investments mainly comprised investee companies that are principally engaged in online community services, online financing business, bike sharing service, online games development, electric vehicle business and other Internet-related businesses. The redemption prices of the relevant instruments are agreed at not less than their respective original subscription prices.

During the year ended 31 December 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 re-designated several investments from investments in redeemable instruments of associates to investments in associates (Note 20 (v)).

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.

23 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.

Share of profit amounting to RMB91 million was recognised during the year ended 31 December 2017 (2016: RMB27 million) (Note 10).

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

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Equity investments in listed entities		
– Mainland China	**2,694**	3,909
– Hong Kong	**305**	615
– United States of America	**45,364**	13,552
– United Kingdom	**3,065**	2,066
– Sweden	**390**	204
– South Korea	**163**	131
– Japan	**1,899**	–
	53,880	20,477
Equity investments in unlisted entities	**70,962**	62,580
Others	**2,376**	749
	127,218	83,806

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 (Note (i), (ii), (iii) and (iv))	**57,008**	37,319
Disposals and transfers (Note (v))	**(23,542)**	(2,755)
Changes in fair value	**16,764**	2,567
Impairment provision (Note (vi))	**(671)**	(1,028)
Currency translation differences	**(6,147)**	3,364
At end of the year	**127,218**	83,806

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

Note:

(i) 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.

(ii) 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).

(iii) 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).

(iv) 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.

(v) 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 20(v)).

(vi) 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.

(vii) During the year ended 31 December 2017, the Group made a large number of individual investments recognised as available-for-sale financial assets, but none of them was significant enough to trigger the disclosure requirements pursuant to Chapter 14 of the Listing Rules at the time when the Group made such investments.

(viii) Management has assessed the level of influence that the Group exercises on certain available-for-sale financial assets with shareholding exceeding 20%. Management determined that it has no significant influence on certain of these investees as the Group has neither board seats nor power to participate in decision making in these investees. Consequently, these investments have been classified as available-for-sale financial assets.

25 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Included in non-current assets:		
Prepayments for media contents and game licences	**7,031**	3,942
Loans to investees and investees' shareholders (Note)	**2,058**	1,113
Running royalty fees for online games	**149**	685
Others	**1,935**	1,623
	11,173	7,363
Included in current assets:		
Prepayments and prepaid expenses	**6,681**	4,659
Running royalty fees for online games	**4,095**	2,506
Interest receivables	**2,703**	2,293
Refundable value-added tax	**579**	260
Loans to investees and investees' shareholders (Note)	**521**	1,679
Rental deposits and other deposits	**220**	199
Others	**2,311**	2,522
	17,110	14,118
	28,283	21,481

Note:

As at 31 December 2017, the balances of loans to investees and investees' shareholders are repayable within a period of two to eight years (included in non-current assets), or within one year (included in current assets), and are interest-bearing at rates of not higher than 8.0% per annum (2016: not higher than 8.0% per annum).

As at 31 December 2017, the carrying amounts of deposits and other assets (excludes prepayments and refundable value-added tax), were approximate to their fair values. Deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the counterparties and credit history.

26 OTHER FINANCIAL ASSETS

Included in non-current assets:

As at 31 December 2017, the Group's non-current other financial assets represented the embedded derivatives bifurcated from their host contracts which mainly comprise the conversion options bifurcated from their corresponding host components that were classified as available-for-sale financial assets and investments in redeemable instruments of associates, and interest rate swap contracts, of RMB3,818 million (2016: RMB1,176 million) and RMB1,300 million (2016: RMB584 million), respectively.

As at 31 December 2017, the aggregate notional principal amounts of the Group's outstanding interest rate swap contracts, which swap the floating interest rates into fixed interest rates, were USD10,741 million (equivalent to approximately RMB70,184 million) (2016: USD4,001 million (equivalent to approximately RMB27,755 million)). These interest rate swap contracts were qualified for hedge accounting.

Included in current assets:

As at 31 December 2017, the Group's current other financial assets represent call option rights held by the Group which entitle it to acquire additional equity interests in an investee company of the Group.

27 DEFERRED INCOME TAXES

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

There was no offsetting of deferred income tax assets and liabilities in 2017 and 2016.

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Deferred income tax assets:		
– to be recovered after more than 12 months	**4,510**	3,272
– to be recovered within 12 months	**5,283**	3,761
	9,793	7,033
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(5,583)**	(4,777)
– to be recovered within 12 months	**(392)**	(376)
	(5,975)	(5,153)

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

	2017	2016
	RMB'Million	RMB'Million
At beginning of the year	**1,880**	(2,911)
(Charged)/credited to consolidated income statement (Note 11)	**(590)**	598
Withholding tax paid	**2,451**	300
Credited to consolidated statement of changes in equity	**164**	362
Business combinations	**(21)**	(381)
Other additions	**–**	3,851
Currency translation differences	**(66)**	61
At end of the year	**3,818**	1,880

27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax assets were as follows:

	Deferred income tax assets on temporary differences arising from				
	Accelerated amortisation of intangible assets RMB'Million	Tax losses RMB'Million (Note)	Accrued expenses RMB'Million	Share-based payments and others RMB'Million	Total RMB'Million
At 1 January 2017	**642**	**189**	**3,661**	**2,541**	**7,033**
Credited/(charged) to consolidated income statement	**1,260**	**(93)**	**1,904**	**(275)**	**2,796**
Credited to consolidated statement of changes in equity	**–**	**–**	**–**	**46**	**46**
Currency translation differences	**–**	**–**	**–**	**(82)**	**(82)**
At 31 December 2017	**1,902**	**96**	**5,565**	**2,230**	**9,793**
At 1 January 2016	243	209	–	305	757
Business combinations	–	–	–	4	4
Credited/(charged) to consolidated income statement	399	(27)	1,604	367	2,343
Other additions	–	–	2,057	1,794	3,851
Currency translation differences	–	7	–	71	78
At 31 December 2016	642	189	3,661	2,541	7,033

Note:

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2017, the Group did not recognise deferred income tax assets of RMB1,129 million (2016: RMB957 million) in respect of cumulative tax losses amounting to RMB4,997 million (2016: RMB4,064 million). These tax losses will expire from 2018 to 2022.

27 DEFERRED INCOME TAXES (Cont'd)

The movements of deferred income tax liabilities were as follows:

	Deferred income tax liabilities on temporary differences arising from					
	Intangible assets acquired in business combinations RMB'Million	Withholding tax on the earnings anticipated to be remitted by subsidiaries RMB'Million	Changes in fair value of available-for-sale financial assets RMB'Million	Deemed disposals of investees RMB'Million	Others RMB'Million	Total RMB'Million
At 1 January 2017	**(607)**	**(3,391)**	**(269)**	**(425)**	**(461)**	**(5,153)**
Business combinations	**(21)**	**–**	**–**	**–**	**–**	**(21)**
Credited/(charged) to consolidated income statement	**121**	**(3,150)**	**–**	**(354)**	**(3)**	**(3,386)**
Withholding tax paid	**–**	**2,451**	**–**	**–**	**–**	**2,451**
Credited to consolidated statement of changes in equity	**–**	**–**	**118**	**–**	**–**	**118**
Currency translation differences	**1**	**15**	**–**	**–**	**–**	**16**
At 31 December 2017	**(506)**	**(4,075)**	**(151)**	**(779)**	**(464)**	**(5,975)**
At 1 January 2016	(314)	(1,975)	(631)	(198)	(550)	(3,668)
Business combinations	(385)	–	–	–	–	(385)
Credited/(charged) to consolidated income statement	94	(1,700)	–	(227)	88	(1,745)
Withholding tax paid	–	300	–	–	–	300
Credited to consolidated statement of changes in equity	–	–	362	–	–	362
Currency translation differences	(2)	(16)	–	–	1	(17)
At 31 December 2016	(607)	(3,391)	(269)	(425)	(461)	(5,153)

As at 31 December 2017, the Group recognised the relevant deferred income tax liabilities of RMB4,075 million (2016: RMB3,391 million) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB32,213 million (2016: RMB41,220 million) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

28 TERM DEPOSITS

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Included in non-current assets:		
RMB term deposits	**5,358**	5,409
Other currencies	**7**	6
	5,365	5,415
Included in current assets:		
RMB term deposits	**30,701**	46,118
USD term deposits	**4,187**	2,708
Other currencies	**1,836**	1,494
	36,724	50,320
	42,089	55,735

The effective interest rate for the term deposits of the Group with initial terms of over three months during the year ended 31 December 2017 was 3.86% (2016: 3.41%).

Term deposits with initial terms of over three months were neither past due nor impaired. As at 31 December 2017, the carrying amounts of the term deposits with initial terms of over three months approximated their fair values.

29 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	**3,497**	1,579
	16,549	10,152

Majority of the Group's accounts receivable were denominated in RMB.

The carrying amounts of accounts receivable of the Group's major agents/customers are as follows:

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Online advertising customers and agencies	**8,076**	4,679
Third party platform providers	**3,140**	2,252
Telecommunications operators	**564**	928
Others	**4,769**	2,293
	16,549	10,152

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.

As at 31 December 2017, insignificant amounts of accounts receivable were past due and related impairment provision was recognised after assessment of the financial condition and credit quality with reference to the past history.

As at 31 December 2017, the carrying amounts of accounts receivable approximated their fair values.

30 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Bank balances and cash	**48,278**	39,804
Term deposits and highly liquid investments with initial terms within three months	**57,419**	32,098
	105,697	71,902

The effective interest rate of the term deposits of the Group with initial terms within three months during the year ended 31 December 2017 was 2.42% (2016: 2.47%).

Approximately RMB54,894 million (2016: RMB28,154 million) and RMB11,740 million (2016: RMB1,856 million) of the total balance of the Group's cash and cash equivalents was denominated in RMB and placed with banks in Mainland China and Hong Kong, respectively.

(b) Restricted cash

As at 31 December 2017, restricted deposits held at bank of RMB1,606 million (2016: RMB750 million) were mainly denominated in RMB.

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

As at 31 December 2017 and 2016, the authorised share capital of the Company comprises 50,000,000,000 ordinary shares with par value of HKD0.00002 per share.

	Number of issued and fully paid ordinary shares*	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Total RMB'Million
At 1 January 2017	**9,477,083,480**	**–**	**17,324**	**(3,136)**	**14,188**
Employee share option schemes:					
– value of employee services	**–**	**–**	**1,125**	**–**	**1,125**
– shares issued (Note (a))	**4,102,812**	**–**	**171**	**–**	**171**
Employee share award schemes:					
– value of employee services	**–**	**–**	**4,254**	**–**	**4,254**
– shares withheld for share award schemes (Note (b))	**–**	**–**	**–**	**(2,232)**	**(2,232)**
– shares allotted for share award schemes (Note (c))	**17,870,595**	**–**	**–**	**–**	**–**
– shares vested from share award schemes and transferred to the grantees (Note (d))	**–**	**–**	**(1,398)**	**1,398**	**–**
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note 32(d))	**–**	**–**	**728**	**–**	**728**
At 31 December 2017	**9,499,056,887**	**–**	**22,204**	**(3,970)**	**18,234**
At 1 January 2016	9,403,923,992	–	12,167	(1,817)	10,350
Employee share option schemes:					
– value of employee services	–	–	311	–	311
– shares issued (Note (a))	8,718,788	–	225	–	225
Employee share award schemes:					
– value of employee services	–	–	3,453	–	3,453
– shares withheld for share award schemes (Note (b))	–	–	–	(1,936)	(1,936)
– shares allotted for share award schemes (Note (c))	64,440,700	–	–	–	–
– shares vested from share award schemes and transferred to the grantees (Note (d))	–	–	(617)	617	–
Acquisition of additional equity interests in non-wholly owned subsidiaries (Note 32(d))	–	–	1,785	–	1,785
At 31 December 2016	9,477,083,480	–	17,324	(3,136)	14,188

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

* As at 31 December 2017, the total number of issued ordinary shares of the Company included 70,675,181 shares (2016: 82,075,537 shares) held under the Share Award Schemes.

Note:

(a) During the year ended 31 December 2017, 4,102,812 Post-IPO options (2016: 8,718,788 Post-IPO options) with exercise prices ranging from HKD26.08 to HKD174.86 (2016: HKD18.06 to HKD148.90) were exercised.

(b) During the year ended 31 December 2017, the Share Scheme Trust withheld 9,303,028 ordinary shares (2016: 13,242,861 ordinary shares) of the Company for an amount of approximately HKD2,606 million (equivalent to approximately RMB2,232 million) (2016: HKD2,267 million (equivalent to approximately RMB1,936 million)), which had been deducted from the equity.

(c) During the year ended 31 December 2017, the Company allotted 17,870,595 ordinary shares (2016: 64,440,700 ordinary shares) to the Share Scheme Trust for the purpose of granting awarded shares to the participants under the Share Award Schemes.

(d) During the year ended 31 December 2017, the Share Scheme Trust transferred 38,573,979 ordinary shares of the Company (2016: 53,989,266 ordinary shares) to the share awardees upon vesting of the awarded shares (Note 33(b)).

32 OTHER RESERVES

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

32 OTHER RESERVES (Cont'd)

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

32 OTHER RESERVES (Cont'd)

Note:

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

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

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profit (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(c) Share-based compensation reserve arises from share option schemes and share award schemes adopted by the subsidiaries of the Group (Note 33(d)).

(d) During the year ended 31 December 2017, the Group has acquired non-controlling interests in certain non-wholly owned subsidiaries and the aggregate net excess of considerations over the carrying amounts of acquired non-controlling interests of RMB952 million (2016: RMB2,523 million) was recognised directly in equity. Out of which includes an agreement to entire non-controlling interests (including the outstanding equity-settled and cash-settled share options and restricted shares under the relevant employees' investment plans) in a non-wholly owned subsidiary entered into by the Group in 2015. The considerations were settled in cash and awarded shares of the Company. This acquisition was partially completed in 2017.

(e) During the year ended 31 December 2017, a non-wholly owned subsidiary of the Group, China Literature Limited ("China Literature"), have undergone initial public offering by listing of certain of its new shares and sale shares on the Stock Exchange and thus the Group's equity interest in China Literature was diluted. Given China Literature remains a subsidiary of the Group following the said initial public offering, this transaction was accounted for as transaction with non-controlling interest with a gain of RMB2,495 million directly recognised in equity.

During the year ended 31 December 2017, another non-wholly owned subsidiary of the Group issued certain new shares in exchange for non-controlling interest of an investee, which accounted for as available-for-sale financial assets, and the Group's equity interest in such non-wholly owned subsidiary was diluted accordingly. This transaction was accounted for as transaction with non-controlling interest with a gain of RMB4,088 million directly recognised in equity.

33 SHARE-BASED PAYMENTS

(a) Share option schemes

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

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

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

On 17 May 2017, a new share option scheme ("Post-IPO Option Scheme IV") had been approved by the shareholders of the Company. The maximum number of shares in respect of which options may be granted under the Post-IPO Option Scheme IV shall not exceed 379,099,339 shares, representing 4% of the issued shares of the Company as at the date of shareholders' approval of the Post-IPO Option Scheme IV (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Post-IPO Option Scheme IV shall not be counted for the purpose of calculating the 4% limit. The Company may refresh the Scheme Mandate Limit by an ordinary resolution of the shareholders passed in a general meeting, provided that the Scheme Mandate Limit so refreshed shall not exceed 4% of the issued shares as at the date the shareholders approve the refreshing of such Scheme Mandate Limit. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed. Options granted under the Post-IPO Option Scheme IV will expire no later than the last day of the 7-year period after the date of grant of options (subject to early termination as set out in the terms of the Post-IPO Option Scheme IV).

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(i) Movements in share options

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

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

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).

As a result of the options exercised during the year ended 31 December 2017, 4,102,812 ordinary shares (2016: 8,718,788 ordinary shares) were issued by the Company (Note 31). The weighted average price of the shares at the time these options were exercised was HKD286.46 per share (equivalent to approximately RMB248.41 per share) (2016: HKD173.65 per share (equivalent to approximately RMB148.82 per share)).

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2017 and 2016 are as follows:

		Number of share options	
Expiry Date	**Range of exercise price**	**31 December 2017**	31 December 2016
7 years commencing from the date of	HKD26.08-HKD49.76	**1,633,050**	5,005,325
grant of options	HKD112.30-HKD174.86	**25,386,768**	26,242,111
(Post-IPO Option Scheme II and	HKD225.44-HKD272.36	**37,556,725**	–
Post-IPO Option Scheme IV)	HKD419.60	**89,565**	–
		64,666,108	31,247,436
10 years commencing from the date of			
grant of options			
(Post-IPO Option Scheme III)	HKD31.70	**2,500,000**	2,500,000
		67,166,108	33,747,436

The outstanding share options as of 31 December 2017 were divided into two to five tranches on an equal basis as at their grant dates. The first tranche can be exercised after a specified period ranging from one to five years from the grant date, and then the remaining tranches will become exercisable in each subsequent year.

33 SHARE-BASED PAYMENTS (Cont'd)

(a) Share option schemes (Cont'd)

(iii) Fair value of options

The directors of the Company have used the Binomial Model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of options granted during the year ended 31 December 2017 was HKD71.30 per share (equivalent to approximately RMB62.86 per share) (2016: HKD56.41 per share (equivalent to approximately RMB47.33 per share)).

Other than the exercise price mentioned above, significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, are required to be made by the directors in applying the Binomial Model, which are summarised as below.

	2017	2016
Weighted average share price at the grant date	**HKD236.88**	HKD160.04
Risk free rate	**1.39%-1.68%**	0.69%-1.08%
Dividend yield	**0.26%-0.34%**	0.32%-0.33%
Expected volatility (Note)	**30.00%**	35.00%

Note:

The expected volatility, measured as the standard deviation of expected share price returns, is determined based on the average daily trading price volatility of the shares of the Company.

(b) Share award schemes

The Company has adopted two share award schemes (the "Share Award Schemes") as of 31 December 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	
	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	**(38,573,979)**	(53,989,266)
At end of the year	**63,636,254**	86,365,812
Vested but not transferred as at the end of the year	**159,893**	277,291

33 SHARE-BASED PAYMENTS (Cont'd)

(b) Share award schemes (Cont'd)

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).

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

The weighted average fair value of awarded shares granted during the year ended 31 December 2017 was HKD274.02 per share (equivalent to approximately RMB238.37 per share) (2016: HKD165.25 per share (equivalent to approximately RMB141.89 per share)).

The outstanding awarded shares as of 31 December 2017 were divided into two to five tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a specified period ranging from four months to four years from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(c) Employee investment schemes

For aligning the interests of key employees with the Group, the Group established six employees' investment plans in the form of limited liability partnerships in 2011, 2014, 2015, 2016 and 2017 (the "EIS") respectively. According to the term of the EISs, the Board may, at its absolute discretion, invite any qualifying participants of the Group, excluding any director of the Company, to participate in the EISs by subscribing for the partnership interest at cash consideration. The participating employees are entitled to all the economic benefits generated by the EISs, if any, after a specified vesting period under the respective EISs, ranging from four to seven years. Wholly-owned subsidiaries of the Company acting as general partner of these EISs administer and in essence, control the EISs. These EISs are therefore consolidated by the Company as structured entities.

The related share-based compensation expenses incurred for the years ended 31 December 2017 and 2016 were insignificant to the Group.

(d) Share options and share award schemes adopted by subsidiaries

Certain subsidiaries of the Group operate their own share-based compensation plans (share option and/or share award schemes). Their exercise prices of the share options, as well as the vesting periods of the share options and awarded shares are determined by the board of directors of these subsidiaries at their sole discretion. Similar to the share option/award schemes adopted by the Company, the share options or restricted shares of the subsidiaries granted are normally vested by several tranches. Participants of some subsidiaries have the right to request the Group to repurchase their vested equity interests of the respective subsidiaries ("Repurchase Transaction"). The Group has discretion to settle the Repurchase Transaction by using either equity instruments of the Company or by cash. For the Repurchase Transaction which the Group has settlement options, the directors of the Company are currently of the view that they would be settled by equity instruments of the Company. As a result, they are accounted for using the equity-settled share-based payment method.

33 SHARE-BASED PAYMENTS (Cont'd)

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated income statement. As at 31 December 2017, the Expected Retention Rate of the Group's wholly-owned subsidiaries was assessed to be 88%-97% (2016: 88%-96%).

34 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 (Note (a))	**76,326**	57,549
Non-current portion of long-term RMB bank borrowings, unsecured (Note (a))	**4,459**	–
Non-current portion of long-term HKD bank borrowings, unsecured (Note (a))	**834**	–
Non-current portion of long-term RMB bank borrowings, secured (Note (a))	**475**	–
	82,094	57,549
Included in current liabilities:		
HKD bank borrowings, unsecured (Note (b))	**14,293**	–
USD bank borrowings, unsecured (Note (b))	**1,307**	12,139
Current portion of long-term USD bank borrowings, unsecured (Note (a))	**66**	139
Current portion of long-term RMB bank borrowings, unsecured (Note (a))	**30**	–
	15,696	12,278
	97,790	69,827

34 BORROWINGS (Cont'd)

Note:

(a) The aggregate principal amounts of long-term USD bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,691 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.

The long-term bank borrowings were repayable as follows:

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Within 1 year	**96**	139
Between 1 and 2 years	**9,947**	5,376
Between 2 and 5 years	**66,201**	48,947
More than 5 years	**5,946**	3,226
	82,190	57,688

(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.

During the year ended 31 December 2017, the Group entered into certain interest rate swap contracts to hedge its exposure arising from its long-term bank borrowings carried at floating rates. The Group's outstanding interest rate swap contracts as at 31 December 2017 have been detailed in Note 26.

As at 31 December 2017, the carrying amounts of borrowings approximated their fair values.

35 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	**2,666**	3,743
	29,363	36,204
Included in current liabilities:		
Current portion of long-term USD notes payable	**3,919**	3,466
Current portion of long-term HKD notes payable	**833**	–
	4,752	3,466
	34,115	39,670

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.

The notes payable were repayable as follows:

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Within 1 year	**4,752**	3,466
Between 1 and 2 years	**13,044**	5,043
Between 2 and 5 years	**9,833**	24,281
More than 5 years	**6,486**	6,880
	34,115	39,670

35 NOTES PAYABLE (Cont'd)

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

In May 2017, the notes payable with an aggregate principal amount of USD500 million issued in April 2014 reached their maturity and were repaid in full by the Group.

As at 31 December 2017, the fair value of the notes payable amounted to RMB34,691 million (2016: RMB40,379 million). The respective fair values are assessed based on the active market price of these notes on the reporting date or by making reference to similar instruments traded in the observable market.

36 LONG-TERM PAYABLES

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Payables relating to licensed online contents and running royalty fee for online games	**2,597**	3,859
Purchase consideration payables for business combinations	**289**	–
Present value of liabilities in relation to the put options granted to non-controlling shareholders of a subsidiary	**225**	203
Others	**751**	873
	3,862	4,935

37 DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by customers for certain VAS in the form of pre-paid tokens or cards, virtual items and subscriptions, for which the related services had not been rendered as at 31 December 2017. It also includes customer loyalty incentives offered by the Group to its customers which were valued at their respective fair values at the inception date. As at 31 December 2017, deferred revenue also included fair value of internet traffic and other support to be offered to JD.com and other investee companies in the future periods measured at their respective inception dates, as mentioned in Note 20.

38 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	**6,585**	2,363
	50,085	27,413

39 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Staff costs and welfare accruals	**13,451**	8,965
Selling and marketing expense accruals	**4,414**	2,530
Purchase of land use rights and construction related costs	**1,463**	857
General and administrative expenses accruals	**1,149**	1,160
Purchase consideration payables for investee companies	**1,045**	394
Prepayments received from customers and others	**416**	1,417
Interests payable	**410**	403
Others (Note)	**7,085**	5,147
	29,433	20,873

Note:

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

40 CONSOLIDATED CASH FLOW STATEMENT

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

	2017 RMB'Million	2016 RMB'Million
Profit for the year	**72,471**	41,447
Adjustments for:		
Income tax expense	**15,744**	10,193
Gains on disposals and deemed disposals of investees and businesses	**(13,518)**	(6,966)
Dividend income	**(1,713)**	(563)
Depreciation of property, plant and equipment and investment properties	**4,880**	3,716
Amortisation of intangible assets and land use right	**18,731**	9,025
Net losses on disposals of intangible assets, property, plant and equipment and construction in progress	**24**	60
Interest income	**(3,940)**	(2,619)
Equity-settled share-based compensation expenses	**6,137**	4,313
Share of (profit)/loss of associates and joint ventures	**(821)**	2,522
Impairment provision for available-for-sale financial assets, investments in associates, joint ventures and redeemable instruments of associates	**2,555**	4,443
Fair value gains on other financial assets	**(4,298)**	(658)
Impairment of intangible assets	**239**	366
Exchange gains	**(152)**	(212)
Changes in working capital:		
Accounts receivable	**(6,400)**	(2,930)
Inventories	**(39)**	(38)
Prepayments, deposits and other receivables	**(3,760)**	(4,108)
Accounts payable	**16,134**	7,060
Other payables and accruals	**8,422**	2,506
Other tax liabilities	**189**	49
Deferred revenue	**9,117**	8,428
Cash generated from operating activities	**120,002**	76,034

40 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Major non-cash transactions

Other than the transaction with non-controlling interests described in Note 32(d) and (e), there were no material non-cash transactions during the year ended 31 December 2017.

(c) Net cash reconciliation

This section sets out an analysis of net cash and the movements in net cash for each of the years presented.

Net cash	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Cash and cash equivalents	**105,697**	71,902
Term deposits and others	**42,540**	55,735
Borrowings – repayable within one year	**(15,696)**	(12,278)
Borrowings – repayable after one year	**(82,094)**	(57,549)
Notes payable – repayable within one year	**(4,752)**	(3,466)
Notes payable – repayable after one year	**(29,363)**	(36,204)
Net cash	**16,332**	18,140
Cash and cash equivalents, term deposits and others	**148,237**	127,637
Gross debt – fixed interest rates	**(39,257)**	(40,364)
Gross debt – floating interest rates	**(92,648)**	(69,133)
Net cash	**16,332**	18,140

	Cash and cash equivalents RMB'Million	Term deposits and others RMB'Million	Borrowings due within 1 year RMB'Million	Borrowings due after 1 year RMB'Million	Notes payable due within 1 year RMB'Million	Notes payable due after 1 year RMB'Million	Total RMB'Million
Net cash as at 31 December 2016	71,902	55,735	(12,278)	(57,549)	(3,466)	(36,204)	18,140
Cash flows	36,346	(13,179)	(3,698)	(28,764)	3,450	–	(5,845)
Exchange impacts	(2,551)	(16)	768	3,731	231	1,921	4,084
Other non-cash movements	–	–	(488)	488	(4,967)	4,920	(47)
Net cash as at 31 December 2017	**105,697**	**42,540**	**(15,696)**	**(82,094)**	**(4,752)**	**(29,363)**	**16,332**

41 COMMITMENTS

(a) Capital commitments

Capital commitments as at 31 December 2017 and 2016 are analysed as follows:

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Contracted:		
Construction/Purchase of buildings and purchase of land use rights	**273**	1,911
Purchase of other property, plant and equipment	**153**	44
Capital investment in investees	**3,027**	2,866
	3,453	4,821

(b) Operating lease commitments

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**217**	302
Later than one year and not later than five years	**502**	632
Later than five years	**969**	1,156
	1,688	2,090

(c) Other commitments

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
Contracted:		
Not later than one year	**6,089**	3,404
Later than one year and not later than five years	**10,376**	4,081
Later than five years	**2,237**	1,540
	18,702	9,025

42 RELATED PARTIES TRANSACTIONS

Except as disclosed in Note 13(a) (Senior management's emoluments), Note 13(b) (Five highest paid individuals), Note 14 (Benefits and interests of directors), Note 20 (Transactions with associates), Note 25 (Loans to investees and investees' shareholders) and Note 33 (Share-based payments) to the consolidated financial statements, the Group had no other material transactions with related parties during the years ended 31 December 2017 and 2016, and no other material balances with related parties as at 31 December 2017 and 2016.

43 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
2023 Floating Rate Notes	500	3-month USD LIBOR + 0.605%	2023
2028 Notes	2,500	3.595%	2028
2038 Notes	1,000	3.925%	2038
	5,000		

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. ("Wanda Commercial"), 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.

44 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
ASSETS		
Non-current assets		
Intangible assets	**41**	42
Investments in subsidiaries	**55,253**	54,097
Investments in associates	**–**	1,346
Prepayments, deposits and other receivables	**–**	464
Contribution to Share Scheme Trust	**43**	67
	55,337	56,016
Current assets		
Amounts due from subsidiaries	**8,725**	10,108
Prepayments, deposits and other receivables	**17**	15
Cash and cash equivalents	**7,919**	1,629
	16,661	11,752
Total assets	**71,998**	67,768
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 (b)	**(531)**	126
Retained earnings (b)	**8,371**	4,031
Total equity	**26,074**	18,345

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

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

	As at 31 December	
	2017	2016
	RMB'Million	RMB'Million
LIABILITIES		
Non-current liabilities		
Notes payable	**29,363**	36,204
Other financial liabilities	**2,068**	1,925
	31,431	38,129
Current liabilities		
Amounts due to subsidiaries	**9,408**	7,465
Other payables and accruals	**333**	363
Notes payable	**4,752**	3,466
	14,493	11,294
Total liabilities	**45,924**	49,423
Total equity and liabilities	**71,998**	67,768

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

(b) Reserve movement of the Company

	Retained earnings RMB'Million	Other reserves RMB'Million
At 1 January 2017	**4,031**	**126**
Profit for the year	**9,392**	**–**
Dividends paid relating to 2016	**(5,052)**	**–**
Currency translation differences	**–**	**(657)**
At 31 December 2017	**8,371**	**(531)**
At 1 January 2016	472	(448)
Profit for the year	7,258	–
Dividends paid relating to 2015	(3,699)	–
Currency translation differences	–	574
At 31 December 2016	4,031	126

45 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

The following is a list of principal subsidiaries of the Company as at 31 December 2017:

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Computer	Established in the PRC, limited liability company	RMB65,000,000	100% (Note (a))	Provision of value-added services and Internet advertisement services in the PRC
Tencent Technology	Established in the PRC, wholly foreign owned enterprise	USD2,000,000	100%	Development of softwares and provision of information technology services in the PRC
Shenzhen Shiji Kaixuan Technology Company Limited	Established in the PRC, limited liability company	RMB11,000,000	100% (Note (a))	Provision of Internet advertisement services in the PRC
Tencent Cyber (Tianjin) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD90,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Asset Management Limited	Established in BVI, limited liability company	USD100	100%	Asset management in Hong Kong
Tencent Technology (Beijing) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD1,000,000	100%	Development and sale of softwares and provision of information technology services in the PRC
Nanjing Wang Dian Technology Company Limited	Established in the PRC, limited liability company	RMB10,290,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing BIZCOM Technology Company Limited	Established in the PRC, limited liability company	RMB216,500,000	100% (Note (a))	Provision of value-added services in the PRC
Beijing Starsinhand Technology Company Limited	Established in the PRC, limited liability company	RMB10,000,000	100% (Note (a))	Provision of value-added services in the PRC
Tencent Cyber (Shenzhen) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares in the PRC

45 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Name	Place of establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Tencent Technology (Shanghai) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD5,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Chengdu) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD170,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Technology (Wuhan) Company Limited	Established in the PRC, wholly foreign owned enterprise	USD30,000,000	100%	Development of softwares and provision of information technology services in the PRC
Tencent Cloud Computing (Beijing) Company Limited	Established in the PRC, limited liability company	RMB120,000,000	100% (Note (a))	Provision of information system integration services in the PRC
Morespark Limited	Established in Hong Kong, limited liability company	HKD1,000	100%	Investment holding and provision of online advertisement services in Hong Kong
Beijing Tencent Culture Media Company Limited	Established in the PRC, limited liability company	RMB5,000,000	100%	Design and production of advertisement in the PRC
Riot Games, Inc.	Established in the United States, limited liability company	USD1,306	100%	Development and operation of online games in the United States
China Literature	Established in the Cayman Islands, limited liability company	USD906,417	54.74%*	Provision of online literature services in the PRC
Tencent Music Entertainment Group	Established in the Cayman Islands, limited liability company	USD246,558	53.76%*	Provision of online music entertainment services in the PRC

* on an outstanding basis

45 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES (Cont'd)

Note:

(a) As described in Note 1, the Company does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled structured entities of the Company.

(b) The directors of the Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarised financial information of these non-wholly owned subsidiaries is presented separately.

(c) All subsidiaries' undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary's undertakings held directly by the parent company do not differ from its proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary's undertakings included in the Group.

(d) Significant restrictions

As at 31 December 2017, cash and cash equivalents, term deposits and restricted cash of the Group, amounting to RMB98,144 million were held in Mainland China and they are subject to local exchange control and other financial and treasury regulations. The local exchange control, and other financial and treasury regulations provide for restrictions, on payment of dividends, share repurchase and offshore investments, other than through normal activities.

(e) Consolidation of structured entities

As mentioned in Note (a) above and Note 33(c), the Company has consolidated the operating entities within the Group without any legal interests and the EISs out of which wholly-owned subsidiaries of the Company act as general partner. In addition, due to the implementation of the share award schemes of the Group mentioned in Note 33(b), the Company has also set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for share award schemes which are set up for the benefits of eligible persons of the Schemes

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the schemes, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

During the year ended 31 December 2017, the Company contributed approximately RMB2,232 million (2016: RMB1,936 million) to the Share Scheme Trust for financing its acquisition of the Company's shares.

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

Term	Definition
"2007 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date I, as amended
"2013 Share Award Scheme"	the share award scheme adopted by the Company on Adoption Date II, as amended
"2018 AGM"	the annual general meeting of the Company to be held on 16 May 2018 or any adjournment thereof
"2B"	Product/Service provided to business customers
"Account I"	the bank account opened in the name of the Company to be operated solely for the purposes of operating the 2007 Share Award Scheme and the funds thereof to be held on trust by the Company for the Selected Participants
"Account II"	the bank account opened in the name of the trust pursuant to Trust Deed II, managed by the Trustee, and operated solely for the purposes of operating the 2013 Share Award Scheme, which is held on trust for the benefit of Selected Participants and can be funded by the Company or any of its subsidiaries
"Adoption Date I"	13 December 2007, being the date on which the Company adopted the 2007 Share Award Scheme
"Adoption Date II"	13 November 2013, being the date on which the Company adopted the 2013 Share Award Scheme
"AI"	artificial intelligence
"ARPU"	average revenue per user
"Articles of Association"	the amended and restated articles of association of the Company adopted by special resolution passed on 14 May 2014
"Audit Committee"	the audit committee of the Company
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Awarded Share(s)"	the share(s) of the Company awarded under the Share Award Schemes

Definition

Term	Definition
"Beijing BIZCOM"	Beijing BIZCOM Technology Company Limited
"Beijing Starsinhand"	Beijing Starsinhand Technology Company Limited
"Board"	the board of directors of the Company
"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
"Chongqing Tencent Information"	Chongqing Tencent Information Technology Company Limited
"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
"Company Website"	the website of the Company at www.tencent.com
"Corporate Governance Committee"	the corporate governance committee of the Company
"COSO Framework"	the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations
"CPC"	cost per click
"CRM"	customer relationship management
"Cyber Tianjin"	Tencent Cyber (Tianjin) Company Limited
"DAU"	daily active user accounts
"DnF"	Dungeon and Fighter
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Eligible Person(s)"	any person(s) eligible to participate in the respective Share Award Schemes
"EPS"	earnings per share
"ESG Reporting Guide"	the environmental, social and governance reporting guide as set out in Appendix 27 to the Listing Rules

Term	Definition
"GAAP"	Generally Accepted Accounting Principles
"Grant Date"	in relation to any Awarded Share, the date on which the Awarded Share is, was or is to be granted
"Group"	the Company and its subsidiaries
"Guangzhou Tencent Technology"	Guangzhou Tencent Technology Company Limited
"Hainan Network"	Hainan Tencent Network Information Technology Company Limited
"HKD"	the lawful currency of Hong Kong
"HoK"	Honour of Kings
"Hong Kong"	the Hong Kong Special Administrative Region, the PRC
"IA"	internal audit department of the Company
"IAS"	International Accounting Standards
"IC"	internal control department of the Company
"IFRS"	International Financial Reporting Standards
"IM"	Instant messaging
"Investment Committee"	the investment committee of the Company
"IP"	intellectual property
"IPO"	initial public offering
"Korea"	the Republic of Korea
"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

Definition

Term	Definition
"MIH TC"	MIH TC Holdings Limited
"MOBA"	Multiplayer Online Battle Arena
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"NASDAQ"	NASDAQ Global Select Market
"Netmarble"	Netmarble Games Corporation, a company incorporated under the laws of Korea and the shares of which are listed on the Korea Exchange
"Nomination Committee"	the nomination committee of the Company
"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
"Reference Date"	in respect to a Selected Participant, the date of final approval by the Board of the total number of shares of the Company to be awarded to the relevant Selected Participant on a single occasion pursuant to the 2007 Share Award Scheme
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	the lawful currency of the PRC
"ROI"	return on investment

Term	Definition
"RPG"	role playing game
"Sea"	Sea Limited, a company headquartered in Singapore and listed on the New York Stock Exchange
"Selected Participant(s)"	any Eligible Person(s) selected by the Board to participate in the Share Award Schemes
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai Tencent Information"	Shanghai Tencent Information Technology Company Limited
"Share Award Schemes"	the 2007 Share Award Scheme and the 2013 Share Award Scheme
"Share Subdivision"	with effect from 15 May 2014, each existing issued and unissued share of HKD0.0001 each in the share capital of the Company was subdivided into five subdivided shares of HKD0.00002 each, after passing of an ordinary resolution at the annual general meeting of the Company held on 14 May 2014 and granting by the Stock Exchange of the listing of, and permission to deal in, the subdivided shares
"Shenzhen Tencent Information"	Shenzhen Tencent Information Technology Company Limited
"Shiji Kaixuan"	Shenzhen Shiji Kaixuan Technology Company Limited
"Singapore"	the Republic of Singapore
"SKT CFC"	the co-operation framework contract dated 28 February 2004 entered into between Cyber Tianjin and Shiji Kaixuan
"SKT Co-operation Committee"	the co-operation committee established under the SKT CFC
"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
"TCS CFC"	the co-operation framework contract dated 28 February 2004 entered into between Tencent Technology and Tencent Computer
"TCS Co-operation Committee"	the co-operation committee established under the TCS CFC
"Tencent Beijing"	Tencent Technology (Beijing) Company Limited

Definition

Term	Definition
"Tencent Charity Funds"	charity funds established by the Group
"Tencent Chengdu"	Tencent Technology (Chengdu) Company Limited
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited
"Tencent Music"	Tencent Music Entertainment Group, a limited liability company incorporated under the laws of the Cayman Islands
"Tencent Shanghai"	Tencent Technology (Shanghai) Company Limited
"Tencent Technology"	Tencent Technology (Shenzhen) Company Limited
"Tencent Wuhan"	Tencent Technology (Wuhan) Company Limited
"Trust Deed II"	a trust deed entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) in respect of the appointment of the Trustee for the administration of the 2013 Share Award Scheme
"Trustee"	an independent trustee appointed by the Company for managing the Share Award Schemes
"United States"	the United States of America
"USD"	the lawful currency of the United States
"VAS"	value-added services
"Yixin"	Yixin Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
"Wang Dian"	Nanjing Wang Dian Technology Company Limited
"WFOEs"	Tencent Technology, Cyber Tianjin, Tencent Beijing, Shenzhen Tencent Information, Tencent Chengdu, Chongqing Tencent Information, Shanghai Tencent Information, Tencent Shanghai, Tencent Wuhan, Hainan Network and Guangzhou Tencent Technology
"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

Tencent 腾讯

Website: www.tencent.com

Tencent Group Head Office
Tencent Building, Kejizhongyi Avenue, Hi-tech Park
Nanshan District, Shenzhen, the PRC

Zipcode : 518057
Telephone : 86-755-86013388
Facsimile : 86-755-86013399

Tencent Holdings Limited Hong Kong Office
29/F., Three Pacific Place
No.1 Queen's Road East
Wanchai, Hong Kong

Telephone : 852-21795122
Facsimile : 852-25201148