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Tencent 腾讯

TENCENT HOLDINGS LIMITED

騰訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 700)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2019

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2019. These interim results have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board, and by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Unaudited				
	Three months ended				
	31	31	Year-	31	Quarter-
	March	March	on-year	December	on-quarter
	2019	2018	change	2018	change
	(RMB in millions, unless specified)				
Revenues	85,465	73,528	16%	84,896	1%
Gross profit	39,820	37,042	7%	35,152	13%
Operating profit	36,742	30,692	20%	17,288	113%
Profit for the period	27,856	23,973	16%	14,026	99%
Profit attributable to equity holders of the Company	27,210	23,290	17%	14,229	91%
Non-GAAP profit attributable to equity holders of the Company	20,930	18,313	14%	19,730	6%
EPS (RMB per share)					
- basic	2.877	2.470	16%	1.505	91%
- diluted	2.844	2.435	17%	1.489	91%
Non-GAAP EPS (RMB per share)					
- basic	2.213	1.942	14%	2.087	6%
- diluted	2.187	1.915	14%	2.065	6%

BUSINESS REVIEW AND OUTLOOK

1. Company Strategic Highlights

This quarter, we began to separately disclose “FinTech and Business Services” as a new segment in our financial reports. We believe the size and scale of these services, which generated RMB21.8 billion revenue in the quarter, reflect:

- the rapidly-emerging demand for such services as China’s economy develops, as the need for digital payments and financial services extends, and as more enterprises seek to benefit from the opportunities offered by the “Industrial Internet”;
- the synergies between these services and some of our existing consumer services (such as between our communications and social platforms and peer-to-peer payment services, or between our Mini Programs and WeChat Work services); and
- the substantial organic investments that we have made in these services, not only in recent periods, but also for many years past, which provide us with robust scale and rich experience of operating in these fields.

For example, in payments, we built the basic infrastructure for our PC payments service in 2005. We integrated our payments service with Weixin, and then launched the red envelope gifting function, which unleashed the power of social payment, in 2014. We began our offline merchant adoption campaign from 2016, and deepened merchant adoption via our easy-to-deploy QR Codes and Mini Programs solutions. Through these initiatives, we provided point-of-sales solutions to tens of millions of merchants spanning from flagship partners to long-tail merchants. These initiatives demanded that we develop and upgrade solutions serving consumers and merchants, while fulfilling regulatory and security needs, at a massive scale. Executing these initiatives enables the payment-related revenue we generate today, and supports the efficient distribution of financial services, such as personal wealth management and micro-loan products. With a strong focus on risk management, we have grown our FinTech business at a measured pace. The FinTech business also provides us with enterprise relationships and experience that are complementary to our emerging business service offerings.

In cloud, even before serving external customers, our cloud infrastructure was already at a substantial scale in order to meet our internal cloud requirement. Our cloud business started by serving the Internet sector where our established strengths lie, such as the games and video verticals, and then made breakthroughs in smart industries such as finance, retail, municipal services, tourism and healthcare. Our robust infrastructure and accumulated technological capabilities enabled us to support digital upgrades for our growing base of enterprise customers.

This example of our decade-long investment in payments and cloud services illustrates how our strategy of allocating capital to a range of pre-revenue and investment-stage activities ultimately broadens our revenue streams and generates sustainable profit growth over the long term, from communications services to games, advertising, digital content services and now FinTech and Business Services. We continue to invest in emerging services and activities as, we believe, technology continues to provide new consumer and enterprise opportunities.

2. Company Financial Performance

In the first quarter of 2019

Revenue increased by 16% year-on-year, primarily driven by commercial payment services and other FinTech services, social advertising, and digital content services.

Non-GAAP operating profit increased by 13% year-on-year. Operating profit increased by 20% year-on-year.

Non-GAAP profit attributable to equity holders of the Company increased by 14% year-on-year. Profit attributable to equity holders of the Company increased by 17% year-on-year.

3. Company Business Highlights

Operating Information

	As at 31 March 2019	As at 31 March 2018 (in millions, unless specified)	Year- on-year change	As at 31 December 2018	Quarter- on-quarter change
MAU of QQ	823.0	805.5	2.2%	807.1	2.0%
Smart device MAU of QQ	700.4	694.1	0.9%	699.8	0.1%
Combined MAU of Weixin and WeChat	1,111.7	1,040.0	6.9%	1,097.6	1.3%
Smart device MAU of Qzone	571.9	550.0	4.0%	532.4	7.4%
Fee-based VAS registered subscriptions	165.5	147.1	12.5%	160.3	3.2%

Communications and Social

During the first quarter of 2019, combined MAU of Weixin and WeChat was 1,112 million, up 6.9% year-on-year. Smart device MAU of QQ slightly increased year-on-year and exceeded 700 million in the first quarter. Among which, young users became more engaged on the QQ platform and their MAU grew by a double-digit rate year-on-year.

China Internet users are increasingly utilizing Weixin's and QQ's in-app camera functions to record short videos, which they then share in one-to-one chats, group chats, and timeline formats. Users now upload hundreds of millions of videos each day to our communications and social platforms, which we believe are the leading venues in China for uploading and viewing such user-created videos.

We launched Mobile QQ Version 8.0 with engaging features such as QQ Mini Programs and KuoLie, which recommends new friends to young QQ users based on similar interests. In Weixin, we enabled users to share information, products and services for different vertical categories of Mini Programs within their chat groups, facilitating activities such as group buying for local communities, and the active user base for non-game Mini Programs continued to grow at a healthy rate.

Online Games

Cash receipts for our games business grew 10% year-on-year, while reported revenue decreased 1% year-on-year to RMB28.5 billion, with the difference between cash receipts and reported revenue trends flowing from our revenue deferral policy for items sold in our games. Cash receipts and reported revenue increased quarter-on-quarter, benefiting from favorable seasonality and content upgrades for key PC and mobile titles.

Smart phone games revenues (including smart phone games revenues attributable to our social networks business) amounted to RMB21.2 billion, down 2% year-on-year due to fewer new games releases, and up 11% quarter-on-quarter due to seasonal activities. In Mainland China, total DAU of our smart phone game portfolio increased year-on-year, while paying users grew quarter-on-quarter. Honour of Kings released a content update in January that enhanced user engagement, contributing to its year-on-year increase in paying users and revenue. Perfect World Mobile, a 3D MMORPG based on a long-standing PC IP, became one of the top grossing smart phone games in China soon after its launch and increased total DAU for our RPG portfolio. Because we released Perfect World Mobile late in the quarter, the game contributed substantially to cash receipts, but only modestly to reported revenue, in

the first quarter, as we deferred the majority of the cash receipts for revenue recognition in subsequent periods. Internationally (excluding Mainland China), PUBG MOBILE has exceeded 100 million MAUs since February, according to App Annie. We released the new Royale Pass in March, driving the game's revenue growth.

In the second quarter of 2019, we have released and will release several mid to hard core games, including action, RPG and SLG titles, as well as our tactical tournament title, Peacekeeper Elite. The introduction of Season Passes in overseas games such as Fortnite and PUBG MOBILE has meaningfully contributed to their user engagement, paying ratios, and revenue generation, and we are in the early stages of experimenting with Season Passes in some of our key games in China, such as Cross Fire Mobile, Honour of Kings and QQ Speed Mobile.

Our PC client games revenues was RMB13.8 billion, down 2% year-on-year or up 24% quarter-on-quarter. During the first quarter, core user activity in key PC game titles remained at healthy levels. League of Legends user engagement grew after increasing its velocity of new skin introductions, and several recent skin releases have been particularly popular, driving a rebound in cash receipts. In late January, DnF released a major content update with a higher level cap, and its promotional packages for Chinese New Year increased its paying users quarter-on-quarter.

Digital Content

Our fee-based VAS subscriptions increased 13% year-on-year to 165.5 million, mainly attributable to video and music subscriptions. Tencent Video subscriptions increased 43% year-on-year to 89.0 million, driven by popular self-commissioned IP content, such as Candle in the Tomb Season 3; Heaven Sword, Dragon Sabre (based on the popular martial arts novel by Louis Cha); and The Land of Warriors Season 2. Tencent Video subscription counts were broadly stable sequentially due to delays in airing certain drama series, which might otherwise have contributed more to subscriber growth.

Daily video views for Tencent Video grew rapidly year-on-year due to the popularity of short videos distributed through the Tencent Video app. We produced appealing long-form video content leveraging our rich IP portfolio, such as Produce 101 Season 2, a variety show based on the popular Produce 101 format. To further engage with video viewers, WeiShi launched a new feature for Produce 101 Season 2, enabling users to vote for contestants and share related short videos with their Weixin and QQ friends.

Online Advertising

Our online advertising revenues were RMB13.4 billion, up 25% year-on-year. The percentage growth rate slowed down compared with previous years because of the challenging macro environment and the larger base effect. Sequentially, our online advertising revenues were down 21% due to weak seasonality in the first quarter. Social and others advertising revenues were RMB9.9 billion, up 34% year-on-year, benefiting from higher ad fill rates and ad loads across inventories. Sequentially, bidding intensity reduced versus the eCommerce high season in the fourth quarter, pushing cost per click down. Media advertising revenues increased by 5% year-on-year to RMB3.5 billion, mainly driven by the growth of in-feed ads. However our long form video advertising revenues were broadly flat year-on-year as delaying the airing of certain top-tier drama series reduced our inventory of video advertisements. We continue to grow our advertising business at a measured pace and focus on optimising advertiser returns rather than maximising short term revenues.

FinTech and Business Services

FinTech and Business Services revenues were RMB21.8 billion, up 44% year-on-year, driven by commercial payment, other FinTech services such as micro-loan products, and our cloud business. FinTech and Business Services revenues were broadly stable quarter-on-quarter, adversely affected by the absence of interest income generated from our custodian cash balances, as we transferred the remaining custodian cash balances to the People's Bank of China from mid-January onward. Commercial payment volume increased year-on-year, driven by more transactions per user. Monthly active merchants accepting our mobile payments services more than doubled year-on-year, benefiting consumer payment frequency and volume. In Hong Kong, we have collaborated with several partners and attained a virtual banking licence issued by the Hong Kong Monetary Authority, leveraging our FinTech expertise and experience to introduce innovative financial services into Hong Kong.

Our cloud business sustained a rapid year-on-year revenue growth rate, as its paying customer base expanded, supported by enhanced and broader offerings in IaaS, PaaS and SaaS. We upgraded our cloud-based business services for the financial services industry with enhanced security standards. We implemented certain initiatives to facilitate the digital delivery of public services to consumers, such as the Digital Guangdong initiative and the smart tourism partnership with Yunnan Province.

MANAGEMENT DISCUSSION AND ANALYSIS

Change in Segment Reporting

In view of the increased scale and business importance of our payments, financial, and enterprise-facing activities, and to help investors better understand the Group's revenue structure and margin trends, the Company changed its segment disclosure to separately report the financials of FinTech and Business Services, from the first quarter of 2019 onwards. The Company has restated comparatives to conform with the new presentation.

- The FinTech and Business Services segment primarily consists of the financials of: (a) payments, wealth management and other FinTech services, previously classified under the “Others” business segment; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative, previously classified under the “Others” business segment.
- Subsequent to the change, the “Others” business segment now consists of the financials of investments in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.

First Quarter of 2019 Compared to First Quarter of 2018

The following table sets forth the comparative figures for the first quarter of 2019 and the first quarter of 2018:

	Unaudited	
	Three months ended	
	31 March	31 March
	2019	2018
	(RMB in millions)	
Revenues	85,465	73,528
Cost of revenues	<u>(45,645)</u>	<u>(36,486)</u>
Gross profit	39,820	37,042
Interest income	1,408	1,065
Other gains, net	11,089	7,585
Selling and marketing expenses	(4,244)	(5,570)
General and administrative expenses	<u>(11,331)</u>	<u>(9,430)</u>
Operating profit	36,742	30,692
Finance costs, net	(1,117)	(654)
Share of losses of associates and joint ventures	<u>(2,957)</u>	<u>(319)</u>
Profit before income tax	32,668	29,719
Income tax expense	<u>(4,812)</u>	<u>(5,746)</u>
Profit for the period	<u>27,856</u>	<u>23,973</u>
Attributable to:		
Equity holders of the Company	27,210	23,290
Non-controlling interests	<u>646</u>	<u>683</u>
	<u>27,856</u>	<u>23,973</u>
Non-GAAP profit attributable to equity holders of the Company	<u>20,930</u>	<u>18,313</u>

Revenues. Revenues increased by 16% to RMB85,465 million for the first quarter of 2019 on a year-on-year basis. The following table sets forth our revenues by line of business for the first quarter of 2019 and the first quarter of 2018:

	Unaudited			
	Three months ended			
	31 March 2019		31 March 2018	
	Amount	% of total revenues	Amount	% of total revenues
			(Restated)	(Restated)
	(RMB in millions, unless specified)			
VAS	48,974	57%	46,877	64%
FinTech and Business Services	21,789	25%	15,182	21%
Online Advertising	13,377	16%	10,689	14%
Others	<u>1,325</u>	<u>2%</u>	<u>780</u>	<u>1%</u>
Total revenues	<u>85,465</u>	<u>100%</u>	<u>73,528</u>	<u>100%</u>

- Revenues from VAS increased by 4% to RMB48,974 million for the first quarter of 2019 on a year-on-year basis. Online games revenues were RMB28,513 million, broadly stable compared to the first quarter of 2018. Social networks revenues grew by 13% to RMB20,461 million. The increase primarily reflected digital content revenue growth from our live broadcast services and video streaming subscriptions.
- Revenues from FinTech and Business Services increased by 44% to RMB21,789 million for the first quarter of 2019 on a year-on-year basis. The increase was mainly driven by greater revenues from our commercial payment and cloud services.
- Revenues from Online Advertising increased by 25% to RMB13,377 million for the first quarter of 2019 on a year-on-year basis. Social and others advertising revenues increased by 34% to RMB9,898 million, mainly due to the increase in advertising revenues derived from Weixin Moments, Mini Programs and QQ KanDian. Media advertising revenues grew by 5% to RMB3,479 million, primarily reflecting increased contributions from advertisements in our Tencent News service.

Cost of revenues. Cost of revenues increased by 25% to RMB45,645 million for the first quarter of 2019 on a year-on-year basis. The increase mainly reflected greater content costs and costs of FinTech services. As a percentage of revenues, cost of revenues increased to 53% for the first quarter of 2019 from 50% for the first quarter of 2018. The following table sets forth our cost of revenues by line of business for the first quarter of 2019 and the first quarter of 2018:

	Unaudited			
	Three months ended			
	31 March 2019		31 March 2018	
	Amount	% of segment revenues	Amount (Restated)	% of segment revenues (Restated)
	(RMB in millions, unless specified)			
VAS	20,781	42%	17,220	37%
FinTech and Business Services	15,581	72%	11,221	74%
Online Advertising	7,776	58%	7,356	69%
Others	<u>1,507</u>	114%	<u>689</u>	88%
Total cost of revenues	<u>45,645</u>		<u>36,486</u>	

- Cost of revenues for VAS increased by 21% to RMB20,781 million for the first quarter of 2019 on a year-on-year basis. The increase was primarily driven by greater content costs for live broadcast, music and video streaming subscriptions.
- Cost of revenues for FinTech and Business Services increased by 39% to RMB15,581 million for the first quarter of 2019 on a year-on-year basis. The increase primarily flowed from the scale expansion of our FinTech and cloud services.
- Cost of revenues for Online Advertising increased by 6% to RMB7,776 million for the first quarter of 2019 on a year-on-year basis. The increase was mainly due to greater server and bandwidth related operating costs and content costs for our newsfeed services, while video content costs were relatively controlled.

Other gains, net. We recorded net other gains of RMB11,089 million for the first quarter of 2019, which primarily comprised of non-GAAP adjustment items such as fair value gains resulting from increased valuations for certain investee companies in verticals such as financial services, online games and education, as well as net deemed disposal gains arising from the capital activities of certain investee companies.

Selling and marketing expenses. Selling and marketing expenses decreased by 24% to RMB4,244 million for the first quarter of 2019 on a year-on-year basis. The decrease was mainly driven by the reduction of advertising and promotion expenses as a result of internal initiatives to reduce less effective marketing campaigns. Fewer new game launches than usual also contributed to the decrease. As a percentage of revenues, selling and marketing expenses decreased to 5% for the first quarter of 2019 from 8% for the first quarter of 2018.

General and administrative expenses. General and administrative expenses increased by 20% to RMB11,331 million for the first quarter of 2019 on a year-on-year basis. The increase primarily reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 13% for the first quarter of 2019, broadly stable compared to the first quarter of 2018.

Finance costs, net. Net finance costs increased by 71% to RMB1,117 million for the first quarter of 2019 on a year-on-year basis. The increase was primarily due to greater interest expenses as a result of higher amount of average indebtedness.

Share of losses of associates and joint ventures. We recorded share of losses of associates and joint ventures of RMB2,957 million for the first quarter of 2019, which mainly consisted of the losses registered by certain investee companies, including those in the eCommerce sector.

Income tax expense. Income tax expense decreased by 16% to RMB4,812 million for the first quarter of 2019 on a year-on-year basis. The decrease was mainly driven by lower withholding tax provided, as well as entitlements of preferential tax treatments and benefits.

Profit attributable to equity holders of the Company. Non-GAAP profit attributable to equity holders of the Company increased by 14% to RMB20,930 million for the first quarter of 2019 on a year-on-year basis. Profit attributable to equity holders of the Company increased by 17% to RMB27,210 million.

First Quarter of 2019 Compared to Fourth Quarter of 2018

The following table sets forth the comparative figures for the first quarter of 2019 and the fourth quarter of 2018:

	Unaudited	
	Three months ended	
	31 March	31 December
	2019	2018
	(RMB in millions)	
Revenues	85,465	84,896
Cost of revenues	<u>(45,645)</u>	<u>(49,744)</u>
Gross profit	39,820	35,152
Interest income	1,408	1,350
Other gains/(losses), net	11,089	(2,139)
Selling and marketing expenses	(4,244)	(5,730)
General and administrative expenses	<u>(11,331)</u>	<u>(11,345)</u>
Operating profit	36,742	17,288
Finance costs, net	(1,117)	(1,372)
Share of (loss)/profit of associates and joint ventures	<u>(2,957)</u>	<u>16</u>
Profit before income tax	32,668	15,932
Income tax expense	<u>(4,812)</u>	<u>(1,906)</u>
Profit for the period	<u>27,856</u>	<u>14,026</u>
Attributable to:		
Equity holders of the Company	27,210	14,229
Non-controlling interests	<u>646</u>	<u>(203)</u>
	<u>27,856</u>	<u>14,026</u>
Non-GAAP profit attributable to equity holders of the Company	<u>20,930</u>	<u>19,730</u>

Revenues. Revenues were RMB85,465 million for the first quarter of 2019, broadly stable compared to the fourth quarter of 2018.

- Revenues from VAS increased by 12% to RMB48,974 million for the first quarter of 2019. Online games revenues grew by 18% to RMB28,513 million. The increase mainly reflected growth in revenues from our PC client games such as DnF. Revenues from our smart phone games, including existing titles such as Honour of Kings, and new title such as Perfect World Mobile, also contributed to the sequential revenue growth. Social networks revenues increased by 5% to RMB20,461 million. The increase was mainly driven by greater contributions from in-game virtual item sales and from digital content services such as live broadcast services.
- Revenues from FinTech and Business Services were RMB21,789 million for the first quarter of 2019, broadly stable compared to the fourth quarter of 2018. Interest income generated from our custodian cash balances declined sharply quarter-on-quarter, as we transferred the remaining custodian cash balances to the People’s Bank of China from mid-January onward, while revenues from commercial payment and from financial products distribution generally increased quarter-on-quarter.
- Revenues from Online Advertising decreased by 21% to RMB13,377 million for the first quarter of 2019. Social and others advertising revenues decreased by 16% to RMB9,898 million, and media advertising revenues decreased by 33% to RMB3,479 million, mainly due to the impact of weaker seasonality on advertisers’ spending in the first quarter and ongoing macro uncertainties. Delays to the airing of certain top-tier drama series on our video platform also contributed to the sequential revenue decline.

Cost of revenues. Cost of revenues decreased by 8% to RMB45,645 million for the first quarter of 2019 on a quarter-on-quarter basis. The decrease primarily reflected lower content costs, channel costs and costs of FinTech services. As a percentage of revenues, cost of revenues decreased to 53% for the first quarter of 2019 from 59% for the fourth quarter of 2018.

- Cost of revenues for VAS increased by 2% to RMB20,781 million for the first quarter of 2019. The increase was mainly driven by greater content costs for our PC client games, partly offset by lower content costs for video streaming subscriptions.

- Cost of revenues for FinTech and Business Services decreased by 4% to RMB15,581 million for the first quarter of 2019. The decrease mainly reflected reduced costs of payments services, as consumers seasonally tend to move less money from their bank accounts into their mobile payments accounts in the first quarter of the year, temporarily reducing our interchange costs paid to banks on such transfers.
- Cost of revenues for Online Advertising decreased by 28% to RMB7,776 million for the first quarter of 2019. The decrease was primarily due to lower content costs and advertising commissions.

Selling and marketing expenses. Selling and marketing expenses decreased by 26% to RMB4,244 million for the first quarter of 2019 on a quarter-on-quarter basis. The decrease primarily reflected lower advertising and promotion expenses, resulting from seasonally less marketing activities in the first quarter of this year versus the fourth quarter of last year.

General and administrative expenses. General and administrative expenses were RMB11,331 million for the first quarter of 2019, essentially flat quarter-on-quarter.

Income tax expense. Income tax expense increased by 152% to RMB4,812 million for the first quarter of 2019 on a quarter-on-quarter basis. The increase was primarily driven by the entitlements of certain subsidiaries in China for preferential tax rates which reduced our income tax expense in the fourth quarter of 2018, as well as greater taxable income in the first quarter of 2019.

Profit attributable to equity holders of the Company. Non-GAAP profit attributable to equity holders of the Company increased by 6% to RMB20,930 million for the first quarter of 2019 on a quarter-on-quarter basis. Profit attributable to equity holders of the Company increased by 91% to RMB27,210 million.

Other Financial Information

	Unaudited		
	Three months ended		
	31 March	31 December	31 March
	2019	2018	2018
	(RMB in millions, unless specified)		
EBITDA (a)	33,566	27,180	29,247
Adjusted EBITDA (a)	35,598	29,701	30,856
Adjusted EBITDA margin (b)	42%	35%	42%
Interest and related expenses	1,499	1,345	1,067
Net debt (c)	(9,595)	(12,170)	(14,533)
Capital expenditures (d)	4,506	4,564	6,318

Note:

- (a) EBITDA is calculated as operating profit less interest income and other gains/losses, net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, and amortisation of intangible assets. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net debt represents period end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding media contents, game 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		
	31 March	31 December	31 March
	2019	2018	2018
	(RMB in millions, unless specified)		
Operating profit	36,742	17,288	30,692
Adjustments:			
Interest income	(1,408)	(1,350)	(1,065)
Other (gains)/losses, net	(11,089)	2,139	(7,585)
Depreciation of property, plant and equipment and investment properties	2,804	2,520	1,664
Depreciation of right-of-use assets	602	—	—
Amortisation of intangible assets	5,915	6,583	5,541
EBITDA	33,566	27,180	29,247
Equity-settled share-based compensation	2,032	2,521	1,609
Adjusted EBITDA	35,598	29,701	30,856

Non-GAAP Financial Measures

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

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's major associates based on available published financials of the relevant major 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 first quarter of 2019 and 2018, the fourth quarter of 2018 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 31 March 2019						
As reported	Adjustments				Impairment provision	Non-GAAP
	Share-based compensation	Net (gains)/losses from investee companies	Amortisation of intangible assets			
	(a)	(b)	(c)	(d)		
(RMB in millions, unless specified)						
Operating profit	36,742	2,033	(10,546)	114	127	28,470
Profit for the period	27,856	2,564	(10,397)	1,061	589	21,673
Profit attributable to equity holders	27,210	2,477	(10,366)	1,020	589	20,930
EPS (RMB per share)						
- basic	2.877					2.213
- diluted	2.844					2.187
Operating margin	43%					33%
Net margin	33%					25%

Unaudited three months ended 31 December 2018

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

Unaudited three months ended 31 March 2018

	Adjustments					Non-GAAP
	As reported	Share-based compensation (a)	Net (gains)/losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provision (d)	
	(RMB in millions, unless specified)					
Operating profit	30,692	1,632	(7,788)	100	636	25,272
Profit for the period	23,973	1,682	(7,765)	531	709	19,130
Profit attributable to equity holders	23,290	1,585	(7,766)	495	709	18,313
EPS (RMB per share)						
- basic	2.470					1.942
- diluted	2.435					1.915
Operating margin	42%					34%
Net margin	33%					26%

Note:

- (a) Including put options granted to employees of investee companies on their shares and shares to be issued under investee companies' share-based incentive plans which can be acquired by the Group, and other incentives
- (b) Including net (gains)/losses on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, and other expenses in relation to equity transactions of investee companies
- (c) Amortisation of intangible assets resulting from acquisitions, net of related deferred tax
- (d) Impairment provisions for associates, joint ventures and intangible assets arising from acquisitions

Liquidity and Financial Resources

Our cash positions as at 31 March 2019 and 31 December 2018 are as follows:

	Unaudited 31 March 2019	Audited 31 December 2018
	(RMB in millions)	
Cash and cash equivalents	109,692	97,814
Term deposits and others	<u>64,985</u>	<u>69,305</u>
	174,677	167,119
Borrowings	(120,475)	(114,271)
Notes payable	<u>(63,797)</u>	<u>(65,018)</u>
Net debt	<u>(9,595)</u>	<u>(12,170)</u>
Fair value of our stakes in listed investee companies (excluding subsidiaries)	<u>310,712</u>	<u>238,040</u>

As at 31 March 2019, the Group had net debt of RMB9,595 million, compared to net debt of RMB12,170 million as at 31 December 2018. The sequential decrease in indebtedness was mainly due to free cash flow generation, partially offset by payments for M&A initiatives.

For the first quarter of 2019, the Group had free cash flow of RMB23,933 million. This was a result of net cash flow generated from operating activities of RMB28,799 million, offset by payments for capital expenditure of RMB4,866 million.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2019

		Unaudited	
		Three months ended	
		31 March	
	Note	2019	2018
		RMB'Million	RMB'Million
Revenues			
Value-added Services		48,974	46,877
FinTech and Business Services		21,789	15,182
Online Advertising		13,377	10,689
Others		<u>1,325</u>	<u>780</u>
		85,465	73,528
Cost of revenues	4	<u>(45,645)</u>	<u>(36,486)</u>
Gross profit		39,820	37,042
Interest income		1,408	1,065
Other gains, net	3	11,089	7,585
Selling and marketing expenses	4	(4,244)	(5,570)
General and administrative expenses	4	<u>(11,331)</u>	<u>(9,430)</u>
Operating profit		36,742	30,692
Finance costs, net		(1,117)	(654)
Share of losses of associates and joint ventures		<u>(2,957)</u>	<u>(319)</u>
Profit before income tax		32,668	29,719
Income tax expense	5	<u>(4,812)</u>	<u>(5,746)</u>
Profit for the period		<u>27,856</u>	<u>23,973</u>
Attributable to:			
Equity holders of the Company		27,210	23,290
Non-controlling interests		<u>646</u>	<u>683</u>
		<u>27,856</u>	<u>23,973</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
- basic	6	<u>2.877</u>	<u>2.470</u>
- diluted	6	<u>2.844</u>	<u>2.435</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2019**

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
	RMB'Million	RMB'Million
Profit for the period	<u>27,856</u>	<u>23,973</u>
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive (loss)/income of associates and joint ventures	(26)	95
Currency translation differences	(1,999)	(5,379)
Other fair value (losses)/gains	(648)	861
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Net gains from changes in fair value of financial assets at fair value through other comprehensive income	14,265	1,070
Other fair value losses	<u>(1)</u>	<u>(41)</u>
	<u>11,591</u>	<u>(3,394)</u>
Total comprehensive income for the period	<u>39,447</u>	<u>20,579</u>
Attributable to:		
Equity holders of the Company	38,491	20,144
Non-controlling interests	<u>956</u>	<u>435</u>
	<u>39,447</u>	<u>20,579</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019**

		Unaudited 31 March 2019	Audited 31 December 2018
	Note	RMB' Million	RMB' Million
ASSETS			
Non-current assets			
Property, plant and equipment		39,192	35,091
Right-of-use assets	1	10,130	—
Construction in progress		1,975	4,879
Investment properties		916	725
Land use rights		7,154	7,106
Intangible assets		56,170	56,650
Investments in associates	8	228,382	219,215
Investments in joint ventures		8,387	8,575
Financial assets at fair value through profit or loss	9	98,805	91,702
Financial assets at fair value through other comprehensive income	10	58,207	43,519
Prepayments, deposits and other assets		22,921	21,531
Other financial assets		1,098	1,693
Deferred income tax assets		16,329	15,755
		<u>549,666</u>	<u>506,441</u>
Current assets			
Inventories		300	324
Accounts receivable	11	29,471	28,427
Prepayments, deposits and other assets		22,883	18,493
Other financial assets		1,454	339
Financial assets at fair value through profit or loss	9	4,967	6,175
Term deposits		60,085	62,918
Restricted cash		2,229	2,590
Cash and cash equivalents		109,692	97,814
		<u>231,081</u>	<u>217,080</u>
Total assets		<u>780,747</u>	<u>723,521</u>

		Unaudited	Audited
		31 March	31 December
		2019	2018
	Note	RMB' Million	RMB' Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		—	—
Share premium		29,393	27,294
Shares held for share award schemes		(4,096)	(4,173)
Other reserves		11,806	729
Retained earnings		<u>326,859</u>	<u>299,660</u>
		363,962	323,510
Non-controlling interests		<u>34,341</u>	<u>32,697</u>
Total equity		<u>398,303</u>	<u>356,207</u>
LIABILITIES			
Non-current liabilities			
Borrowings	14	92,204	87,437
Notes payable	15	41,222	51,298
Long-term payables		4,140	4,797
Other financial liabilities		1,560	3,306
Deferred income tax liabilities		11,520	10,964
Lease liabilities	1	8,180	—
Deferred revenue		<u>6,191</u>	<u>7,077</u>
		<u>165,017</u>	<u>164,879</u>
Current liabilities			
Accounts payable	13	76,494	73,735
Other payables and accruals		25,536	33,312
Borrowings	14	28,271	26,834
Notes payable	15	22,575	13,720
Current income tax liabilities		9,951	10,210
Other tax liabilities		1,659	1,049
Other financial liabilities		1,166	1,200
Lease liabilities	1	2,305	—
Deferred revenue		<u>49,470</u>	<u>42,375</u>
		<u>217,427</u>	<u>202,435</u>
Total liabilities		<u>382,444</u>	<u>367,314</u>
Total equity and liabilities		<u><u>780,747</u></u>	<u><u>723,521</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2019

	Unaudited							
	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 2019	—	27,294	(4,173)	729	299,660	323,510	32,697	356,207
Comprehensive income								
Profit for the period	—	—	—	—	27,210	27,210	646	27,856
Other comprehensive income, net of tax:								
- share of other comprehensive loss of associates and joint ventures	—	—	—	(26)	—	(26)	—	(26)
- net gains from changes in fair value of financial assets at fair value through other comprehensive income	—	—	—	13,903	—	13,903	362	14,265
- currency translation differences	—	—	—	(1,947)	—	(1,947)	(52)	(1,999)
- other fair value losses, net	—	—	—	(649)	—	(649)	—	(649)
Total comprehensive income for the period	—	—	—	11,281	27,210	38,491	956	39,447
Share of other changes in net assets of associates	—	—	—	695	—	695	—	695
Transactions with equity holders								
Capital injection	—	—	—	—	—	—	170	170
Employee share option schemes:								
- value of employee services	—	567	—	10	—	577	10	587
- proceeds from shares issued	—	22	—	—	—	22	—	22
Employee share award schemes:								
- value of employee services	—	1,263	—	122	—	1,385	80	1,465
- shares withheld for share award schemes	—	—	(176)	—	—	(176)	—	(176)
- vesting of awarded shares	—	(253)	253	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	2	—	2	—	2
Profit appropriations to statutory reserves	—	—	—	14	(14)	—	—	—
Dividends	—	—	—	—	3	3	(23)	(20)
Non-controlling interests arising from business combination	—	—	—	—	—	—	(4)	(4)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	12	—	(50)	—	(38)	(20)	(58)
Dilution of interests in subsidiaries	—	—	—	(49)	—	(49)	31	(18)
Transfer of equity interests of subsidiaries to non-controlling interests	—	488	—	(948)	—	(460)	444	(16)
Total transactions with equity holders at their capacity as equity holders for the period	—	2,099	77	(899)	(11)	1,266	688	1,954
Balance at 31 March 2019	—	29,393	(4,096)	11,806	326,859	363,962	34,341	398,303

	Unaudited							Total equity RMB'Million
	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	
Balance at 31 December 2017, as previously reported	—	22,204	(3,970)	35,158	202,682	256,074	21,019	277,093
Adjustment on adoption of IFRS 9	—	—	—	(16,210)	16,210	—	—	—
Balance at 1 January 2018	—	22,204	(3,970)	18,948	218,892	256,074	21,019	277,093
Comprehensive income								
Profit for the period	—	—	—	—	23,290	23,290	683	23,973
Other comprehensive income, net of tax:								
- share of other comprehensive income of associates and joint ventures	—	—	—	95	—	95	—	95
- net gains from changes in fair value of financial assets at fair value through other comprehensive income	—	—	—	1,070	—	1,070	—	1,070
- currency translation differences	—	—	—	(5,131)	—	(5,131)	(248)	(5,379)
- other fair value gains, net	—	—	—	820	—	820	—	820
Total comprehensive income for the period	—	—	—	(3,146)	23,290	20,144	435	20,579
Transactions with equity holders								
Capital injection	—	—	—	—	—	—	49	49
Employee share option schemes:								
- value of employee services	—	365	—	65	—	430	58	488
- proceeds from shares issued	—	149	—	—	—	149	—	149
Employee share award schemes:								
- value of employee services	—	995	—	86	—	1,081	39	1,120
- shares withheld for share award schemes	—	—	(412)	—	—	(412)	—	(412)
- vesting of awarded shares	—	(287)	287	—	—	—	—	—
Tax benefit from share-based payments of a subsidiary	—	—	—	127	—	127	—	127
Profit appropriations to statutory reserves	—	—	—	32	(32)	—	—	—
Dividends	—	—	—	—	—	—	(5)	(5)
Non-controlling interests arising from business combination	—	—	—	—	—	—	417	417
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	125	—	(102)	—	23	(103)	(80)
Dilution of interests in subsidiaries	—	—	—	435	—	435	1,095	1,530
Transfer of equity interests of subsidiaries to non-controlling interests	—	—	—	(508)	—	(508)	508	—
Total transactions with equity holders at their capacity as equity holders for the period	—	1,347	(125)	135	(32)	1,325	2,058	3,383
Balance at 31 March 2018	—	23,551	(4,095)	15,937	242,150	277,543	23,512	301,055

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2019**

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
	RMB'Million	RMB'Million
		(Restated)
		(Note 1)
Net cash flows generated from operating activities	28,799	20,753
Net cash flows used in investing activities	(21,376)	(39,303)
Net cash flows generated from financing activities	<u>5,580</u>	<u>32,144</u>
Net increase in cash and cash equivalents	13,003	13,594
Cash and cash equivalents at beginning of the period	97,814	105,697
Exchange losses on cash and cash equivalents	<u>(1,125)</u>	<u>(2,219)</u>
Cash and cash equivalents at end of the period	<u>109,692</u>	<u>117,072</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	45,066	43,068
Term deposits and highly liquid investments with initial terms within three months	<u>64,626</u>	<u>74,004</u>
	<u>109,692</u>	<u>117,072</u>

Note:

1 General information, basis of preparation and presentation

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

The Company is an investment holding company. The Group is principally engaged in the provision of VAS, FinTech and Business Services and Online Advertising to users in the PRC.

The condensed consolidated interim financial information of the Group comprises the consolidated statement of financial position as at 31 March 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information has been prepared in accordance with IAS 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with IFRS, as set out in the 2018 annual report of the Company dated 21 March 2019 (the “2018 Financial Statements”).

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2018 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of FVPL, FVOCI, other financial liabilities and derivative financial instruments, which are carried at fair values.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profit.

The Group has adopted IFRS 16 on 1 January 2019, which results in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under IFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019.

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The impact on transition is summarised as below:

	1 January 2019 RMB' Million
Rights-of-use assets	9,688
Lease liabilities	(9,955)
Prepayments, deposits and other assets	(23)
Other payables and accruals	290

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term within 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

Upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

In addition, starting from the first quarter of 2019, the Group has reclassified interest paid in cash flow presentation from operating activities to financing activities in order to reflect the nature of business. Comparative figures have been reclassified to conform with the current period presentation.

2 Segment information

In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand the Group's revenue structure and margin trends, a new segment named "FinTech and Business Services" has been separated from "Others" segment from the first quarter of 2019 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The new "FinTech and Business Services" segment primarily consists of the financials of: (a) payment, wealth management and other FinTech services, previously classified under the "Others" segment; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative, previously classified under the "Others" segment. The comparative figures have been restated to conform with the new presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

The Group has the following reportable segments for the three months ended 31 March 2019 and 2018:

- VAS;
- FinTech and Business Services;
- Online Advertising;
- Others.

Subsequent to the change, the “Others” business segment now consists of the financials of investments in, production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities.

There were no material inter-segment sales during the three months ended 31 March 2019 and 2018. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three months ended 31 March 2019 and 2018 is as follows:

	Unaudited				
	Three months ended 31 March 2019				
	VAS	FinTech and Business Services	Online Advertising	Others	Total
	RMB'Million	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Segment revenues	<u>48,974</u>	<u>21,789</u>	<u>13,377</u>	<u>1,325</u>	<u>85,465</u>
Gross profit/(loss)	<u>28,193</u>	<u>6,208</u>	<u>5,601</u>	<u>(182)</u>	<u>39,820</u>
Depreciation	731	1,398	484	25	2,638
Amortisation	<u>3,107</u>	<u>—</u>	<u>2,237</u>	<u>341</u>	<u>5,685</u>
	Unaudited				
	Three months ended 31 March 2018				
	VAS	FinTech and Business Services	Online Advertising	Others	Total
	RMB'Million	RMB'Million (Restated)	RMB'Million	RMB'Million (Restated)	RMB'Million
Segment revenues	<u>46,877</u>	<u>15,182</u>	<u>10,689</u>	<u>780</u>	<u>73,528</u>
Gross profit	<u>29,657</u>	<u>3,961</u>	<u>3,333</u>	<u>91</u>	<u>37,042</u>
Depreciation	434	655	235	20	1,344
Amortisation	<u>2,310</u>	<u>—</u>	<u>2,964</u>	<u>58</u>	<u>5,332</u>

3 Other gains, net

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
	RMB'Million	RMB'Million
Net fair value gains on FVPL (a)	5,183	6,042
Net gains on disposals and deemed disposals of investee companies (b)	3,667	1,572
Net fair value gains on other financial instruments	1,696	174
Impairment provision for investee companies and intangible assets arising from acquisitions	(127)	(636)
Subsidies and tax rebates	883	1,224
Dividends income	242	45
Donations to Tencent Charity Funds	(700)	(570)
Others	245	(266)
	<u>11,089</u>	<u>7,585</u>

Note:

- (a) Net fair value gains on FVPL of approximately RMB5,183 million (Note 9) recognised during the three months ended 31 March 2019 mainly comprised the following:
- aggregate fair value gains of approximately RMB1,886 million arising from reclassification of several investments principally engaged in Internet-related business from FVPL to investments in associates due to the conversion of redeemable instruments or preferred shares into ordinary shares with board representation upon their respective IPOs; and
 - net gains of approximately RMB3,297 million (three months ended 31 March 2018: RMB6,042 million) arising from fair value changes as a result of changes in valuations of FVPL.
- (b) The disposal and deemed disposal gains during the three months ended 31 March 2019 mainly comprised net gains of approximately RMB3,609 million on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 8). These investee companies are principally engaged in Internet-related business.

4 Expenses by nature

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
	RMB'Million	RMB'Million
Transaction costs (a)	18,463	14,883
Employee benefits expenses (b)	11,616	9,575
Content costs (excluding amortisation of intangible assets)	11,257	7,831
Bandwidth and server custody fees (excluding depreciation of rights-of-use assets)	4,078	3,411
Promotion and advertising expenses	3,321	4,574
Travelling and entertainment expenses	334	273
Amortisation of intangible assets (c)	5,915	5,541
Depreciation of property, plant and equipment, investment properties and right-of-use assets	3,406	1,664

Note:

(a) Transaction costs primarily consist of bank handling fees, channel and distribution costs.

(b) During the three months ended 31 March 2019, the Group incurred expenses for the purpose of R&D of approximately RMB6,489 million (three months ended 31 March 2018: approximately RMB5,006 million), which mainly comprised employee benefits expenses.

No significant development expenses had been capitalised for the three months ended 31 March 2019 and 2018.

(c) Included the amortisation charges of intangible assets mainly in respect of media contents and game licences.

5 Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three months ended 31 March 2019 and 2018.

(b) Hong Kong profit tax

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the three months ended 31 March 2019 and 2018.

(c) PRC corporate income tax

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the PRC for the three months ended 31 March 2019 and 2018. The general PRC CIT rate is 25% for the three months ended 31 March 2019 and 2018.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprises, and accordingly, they were subject to a preferential CIT rate of 15% for the three months ended 31 March 2019 and 2018. Moreover, according to announcements and circulars issued by relevant government authorities, a software enterprise that qualifies as a national key software enterprise is subject to a preferential CIT rate of 10%.

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

(d) Corporate income tax in other jurisdictions

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 three months ended 31 March 2019 and 2018 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(e) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between Mainland China and Hong Kong, the relevant withholding tax rate applicable to such foreign investor will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

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

The income tax expense of the Group for the three months ended 31 March 2019 and 2018 are analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
	RMB'Million	RMB'Million
Current income tax	4,442	4,489
Deferred income tax	<u>370</u>	<u>1,257</u>
	<u>4,812</u>	<u>5,746</u>

6 Earnings per share

(a) Basic

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

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
Profit attributable to equity holders of the Company (RMB'Million)	<u>27,210</u>	<u>23,290</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,457</u>	<u>9,429</u>
Basic EPS (RMB per share)	<u>2.877</u>	<u>2.470</u>

(b) Diluted

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

In addition, the share options and restricted shares granted by the Company's non-wholly owned subsidiaries and associates should also have potential dilutive effect on the EPS. During the three months ended 31 March 2019 and 2018, these share options and restricted shares had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted EPS.

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
Profit attributable to equity holders of the Company (RMB' Million)	<u>27,210</u>	<u>23,290</u>
Weighted average number of ordinary shares in issue (million shares)	9,457	9,429
Adjustments for share options and awarded shares (million shares)	<u>111</u>	<u>135</u>
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,568</u>	<u>9,564</u>
Diluted EPS (RMB per share)	<u>2.844</u>	<u>2.435</u>

7 Dividends

A final dividend in respect of the year ended 31 December 2018 of HKD1.00 per share (2017: HKD0.88 per share) was proposed pursuant to a resolution passed by the Board on 21 March 2019 and subject to the approval of the shareholders at the 2019 AGM. This proposed dividend is not reflected as dividend payable in the Interim Financial Information.

The Board did not declare any interim dividend for the three months ended 31 March 2019 and 2018.

8 Investments in associates

	Unaudited	Audited
	31 March	31 December
	2019	2018
	RMB'Million	RMB'Million
Investments in associates		
- Listed entities (Note)	136,459	130,633
- Unlisted entities	<u>91,923</u>	<u>88,582</u>
	<u>228,382</u>	<u>219,215</u>

Note:

As at 31 March 2019, the fair value of the investments in associates which are listed entities was RMB243,361 million (31 December 2018: RMB187,339 million).

Movement of investments in associates is analysed as follows:

	Unaudited	
	Three months ended	
	31 March	
	2019	2018
	RMB'Million	RMB'Million
At beginning of period	219,215	113,779
Additions (a)	5,700	21,109
Transfers (b)	3,303	363
Deemed disposal gains (Note 3(b))	3,609	576
Share of losses of associates	(2,771)	(303)
Share of other comprehensive (loss)/income of associates	(26)	98
Share of other changes in net assets of associates	695	–
Dividends	(33)	–
Disposals	(68)	(414)
Impairment provision (c)	(127)	1,605
Currency translation differences	<u>(1,115)</u>	<u>(1,695)</u>
At end of period	<u>228,382</u>	<u>135,118</u>

Note:

- (a) The Group acquired certain new associates and made additional investments in existing associates with an aggregate amount of approximately RMB5,700 million during the three months ended 31 March 2019. These associates are principally engaged in transportation network, retail and other Internet-related business.

- (b) During the three months ended 31 March 2019, transfers comprised associates achieved in stages of an aggregate amount of approximately RMB5,286 million, and associates transferred to financial instruments of an aggregate amount of approximately RMB1,983 million as a result of changes in nature of these investments. Out of which, the associates of approximately RMB3,202 million were transferred from FVPL due to the conversion of the redeemable instruments or preferred shares into ordinary shares upon their IPOs.
- (c) During the three months ended 31 March 2019, the Group made an aggregate impairment provision of RMB127 million (three months ended 31 March 2018: mainly represented a reversal of an impairment provision against an associate of RMB1,615 million) against the carrying amounts of certain investments in associates based on the respective assessed recoverable amounts.

9 Financial assets at fair value through profit or loss

FVPL include the following:

	Unaudited 31 March 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Included in non-current assets:		
Investments in listed entities	11,024	9,123
Investments in unlisted entities	82,464	78,234
Others	<u>5,317</u>	<u>4,345</u>
	<u>98,805</u>	<u>91,702</u>
Included in current assets:		
Treasury investments and others	<u>4,967</u>	<u>6,175</u>
	<u>103,772</u>	<u>97,877</u>

Movement of FVPL is analysed as follows:

	Unaudited Three months ended 31 March 2019 RMB'Million	2018 RMB'Million
At beginning of period	97,877	—
Adjustment on adoption of IFRS 9	—	95,497
Additions (Note)	9,249	19,542
Transfers (Note 8(b))	(3,303)	(521)
Changes in fair value (Note 3(a))	5,183	6,042
Disposals	(3,316)	(235)
Currency translation differences	<u>(1,918)</u>	<u>(3,832)</u>
At end of period	<u>103,772</u>	<u>116,493</u>

Note:

During the three months ended 31 March 2019, the Group made a number of new investments and additional investments with an aggregate amount of approximately RMB9,249 million in listed and unlisted entities mainly operating in the United States, the PRC and other Asian countries. These companies are principally engaged in social networks, Internet platform, technology and other Internet-related business.

10 Financial assets at fair value through other comprehensive income

FVOCI include the following:

	Unaudited 31 March 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Equity investments in listed entities		
- United States	46,834	33,120
- Mainland China	6,138	5,365
- France	<u>3,355</u>	<u>3,093</u>
	<u>56,327</u>	<u>41,578</u>
Other unlisted investments	<u>1,880</u>	<u>1,941</u>
	<u><u>58,207</u></u>	<u><u>43,519</u></u>

Movement of FVOCI is analysed as follows:

	Unaudited Three months ended 31 March 2019 RMB'Million	2018 RMB'Million
At beginning of period	43,519	–
Adjustment on adoption of IFRS 9	–	58,515
Additions (Note)	1,132	13,336
Changes in fair value	14,354	1,142
Currency translation differences	<u>(798)</u>	<u>(2,371)</u>
At end of period	<u><u>58,207</u></u>	<u><u>70,622</u></u>

Note:

During the three months ended 31 March 2019, the Group made certain additional investments with an aggregate amount of approximately RMB1,132 million. These companies are principally engaged in Internet-related business.

11 Accounts receivable

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

	Unaudited 31 March 2019 RMB'Million	Audited 31 December 2018 RMB'Million
0 ~ 30 days	10,000	11,200
31 ~ 60 days	8,309	7,695
61 ~ 90 days	5,509	4,201
Over 90 days	<u>5,653</u>	<u>5,331</u>
	<u>29,471</u>	<u>28,427</u>

Receivable balances as at 31 March 2019 and 31 December 2018 mainly represented amounts due from online advertising customers and agencies, content production related customers, FinTech and cloud customers and third party platform providers.

Some online advertising customers and agencies are usually granted with a credit period within 90 days immediately following the month-end in which the relevant obligation under the relevant contracted advertising orders are delivered. Third party platform providers usually settle the amounts due by them within 60 days. Other customers, mainly including content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

12 Share option and share award schemes

(a) Share option schemes

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

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

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

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme III		Post-IPO Option Scheme IV		Total
	Average exercise price	No. of options	Average exercise price	No. of options	Average exercise price	No. of options	No. of options
At 1 January 2019	HKD185.25	51,499,010	–	–	HKD374.52	36,277,234	87,776,244
Exercised	HKD164.33	(63,087)	–	–	HKD272.36	(55,513)	(118,600)
Lapsed/forfeited	–	–	–	–	HKD342.83	(82,218)	(82,218)
At 31 March 2019	HKD185.28	<u>51,435,923</u>	–	–	HKD374.75	<u>36,139,503</u>	<u>87,575,426</u>
Exercisable as at 31 March 2019	HKD172.08	<u>34,234,411</u>	–	–	HKD279.92	<u>1,756,195</u>	<u>35,990,606</u>
At 1 January 2018	HKD179.90	55,510,248	HKD31.70	2,500,000	HKD273.80	9,155,860	67,166,108
Granted	–	–	–	–	HKD444.20	155,050	155,050
Exercised	HKD66.43	(1,636,649)	HKD31.70	(2,500,000)	–	–	(4,136,649)
Lapsed/forfeited	HKD131.47	(37,139)	–	–	HKD272.36	(67,970)	(105,109)
At 31 March 2018	HKD183.38	<u>53,836,460</u>	–	–	HKD276.67	<u>9,242,940</u>	<u>63,079,400</u>
Exercisable as at 31 March 2018	HKD159.40	<u>23,614,945</u>	–	–	–	–	<u>23,614,945</u>

During the three months ended 31 March 2019, no options were granted to any director of the Company (three months ended 31 March 2018: Nil).

(b) Share award schemes

The Company has adopted the Share Award Schemes as of 31 March 2019, 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 three months ended 31 March 2019 and 2018 are as follows:

	Number of awarded shares	
	Three months ended 31 March 2019	2018
At beginning of period	50,247,895	63,636,254
Granted	2,937,998	290,680
Lapsed/forfeited	(702,568)	(649,768)
Vested and transferred	(3,713,496)	(4,711,789)
At end of period	<u>48,769,829</u>	<u>58,565,377</u>
Vested but not transferred as at the end of period	<u>992,996</u>	<u>105,831</u>

During the three months ended 31 March 2019, no awarded shares were granted to any director of the Company (three months ended 31 March 2018: Nil).

13 Accounts payable

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

	Unaudited 31 March 2019 RMB'Million	Audited 31 December 2018 RMB'Million
0 ~ 30 days	56,873	56,506
31 ~ 60 days	6,035	6,264
61 ~ 90 days	1,937	1,557
Over 90 days	<u>11,649</u>	<u>9,408</u>
	<u><u>76,494</u></u>	<u><u>73,735</u></u>

14 Borrowings

	Unaudited 31 March 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	74,984	70,938
Non-current portion of long-term EUR bank borrowings, unsecured (a)	1,134	—
Non-current portion of long-term RMB bank borrowings, unsecured (a)	10,888	11,189
Non-current portion of long-term HKD bank borrowings, unsecured (a)	<u>5,198</u>	<u>5,310</u>
	<u><u>92,204</u></u>	<u><u>87,437</u></u>
Included in current liabilities:		
USD bank borrowings, unsecured (b)	—	16,403
HKD bank borrowings, unsecured (b)	17,853	3,368
RMB bank borrowings, unsecured (b)	528	628
Current portion of long-term USD bank borrowings, unsecured (a)	5,522	5,628
Current portion of long-term RMB bank borrowings, - unsecured (a)	4,368	332
- secured (a)	<u>—</u>	<u>475</u>
	<u><u>28,271</u></u>	<u><u>26,834</u></u>
	<u><u>120,475</u></u>	<u><u>114,271</u></u>

Note:

- (a) The aggregate principal amounts of long-term USD bank borrowings, long-term EUR bank borrowings, long-term RMB bank borrowings and long-term HKD bank borrowings were USD11,956 million (31 December 2018: USD11,156 million), EUR150 million (31 December 2018: Nil), RMB15,256 million (31 December 2018: RMB11,996 million) and HKD6,070 million (31 December 2018: HKD6,070 million), respectively. Applicable interest rates are at LIBOR/HIBOR + 0.70% ~ 1.51%, or a fixed interest rate of 0.52% or 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 9.00% for RMB bank borrowings (31 December 2018: LIBOR/HIBOR + 0.70% ~ 1.51% or a fixed interest rate of 1.875% for non-RMB bank borrowings and interest rates of 4.18% ~ 9.00% for RMB bank borrowings) per annum.
- (b) The aggregate principal amounts of short-term USD bank borrowings, short-term RMB bank borrowings and short-term HKD bank borrowings were nil (31 December 2018: USD2,390 million), RMB528 million (31 December 2018: RMB628 million) and HKD20,850 million (31 December 2018: HKD3,850 million), respectively. These borrowings are carried at LIBOR/HIBOR + 0.50% ~ 0.55% for non-RMB bank borrowings and fixed interest rates of 5.22% ~ 5.44% for RMB bank borrowings (31 December 2018: LIBOR/HIBOR + 0.50% ~ 0.55% for non-RMB bank borrowings and fixed interest rates of 5.22% ~ 5.44% for RMB bank borrowings) per annum.

15 Notes payable

	Unaudited 31 March 2019 RMB'Million	Audited 31 December 2018 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	40,196	48,501
Non-current portion of long-term HKD notes payable	<u>1,026</u>	<u>2,797</u>
	<u>41,222</u>	<u>51,298</u>
Included in current liabilities:		
Current portion of long-term USD notes payable	20,863	13,720
Current portion of long-term HKD notes payable	<u>1,712</u>	<u>—</u>
	<u>22,575</u>	<u>13,720</u>
	<u>63,797</u>	<u>65,018</u>

Note:

The aggregate principal amounts of USD notes payable and HKD notes payable were USD9,100 million (31 December 2018: USD9,100 million) and HKD3,200 million (31 December 2018: HKD3,200 million), respectively. Applicable interest rates are at 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605% (31 December 2018: 2.875% ~ 4.70% and 3-month USD LIBOR + 0.605%) per annum.

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

16 Update of Global Medium Term Note Programme and completion of USD6 billion issue of notes under the Programme

On 1 April 2019, the Company updated the Global Medium Term Note Programme (the “Programme”) to include, among other things, the Company’s recent corporate and financial information and increased the limit of aggregate principal amount of the notes under the Programme from USD10 billion to USD20 billion (or its equivalent in other currencies).

On 11 April 2019, the Company issued five tranches of senior notes under the Programme with an aggregate principal amount of USD6 billion as set out below.

	Amount (USD’Million)	Interest Rate (per annum)	Due
2024 Notes	1,250	3.280%	2024
2024 Floating Rate Notes	750	3-month USD LIBOR + 0.910%	2024
2026 Notes	500	3.575%	2026
2029 Notes	3,000	3.975%	2029
2049 Notes	<u>500</u>	4.525%	2049
	<u><u>6,000</u></u>		

The net proceeds from the issue of these five tranches of senior notes amounted to approximately USD5.98 billion, after deduction of underwriting fees, discounts and commissions but not other expenses payable in connection with the issue. All of the notes are listed on the Stock Exchange.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2019.

Employee and Remuneration Policies

As at 31 March 2019, the Group had 54,623 employees (31 March 2018: 46,049). 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 three months ended 31 March 2019 was RMB11,616 million (for the three months ended 31 March 2018: RMB9,575 million).

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three months ended 31 March 2019. 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 corporate governance report in the 2018 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 complied with the code provisions as set out in the CG Code during the period from 1 January 2019 to 31 March 2019.

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.

APPRECIATION

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

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 15 May 2019

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

Executive Directors:

Ma Huateng and Lau Chi Ping Martin;

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

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

DEFINITION

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

Term	Definition
“2019 AGM”	the annual general meeting of the Company to be held on 15 May 2019 or any adjournment thereof
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“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
“DAU”	daily active user accounts
“DnF”	Dungeon and Fighter
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EPS”	earnings per share
“EUR”	the lawful currency of European Union
“FinTech”	financial technology
“FVOCI”	financial assets at fair value through other comprehensive income
“FVPL”	financial assets at fair value through profit or loss

“GAAP”	Generally Accepted Accounting Principles
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong InterBank Offered Rate
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IaaS”	Infrastructure-as-a-Service
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MMORPG”	massive multiplayer online role playing game
“PaaS”	Platform-as-a-Service
“PC”	personal computer
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007
“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017

“PRC” or “China”	the People’s Republic of China
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“QR Codes”	Quick Response Codes
“R&D”	research and development
“RMB”	the lawful currency of the PRC
“RPG”	role playing game
“SaaS”	Software-as-a-Service
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, as amended, and the share award scheme adopted by the Company on 13 November 2013, as amended
“SLG”	simulation game
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent Charity Funds”	charity funds established by the Group
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services