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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)**

**UPDATE OF GLOBAL MEDIUM TERM NOTE PROGRAMME**  
**PROPOSED ISSUE OF NOTES UNDER THE GLOBAL MEDIUM**  
**TERM NOTE PROGRAMME**  
**AND**  
**EXTRACT OF FINANCIAL INFORMATION**

References are made to the announcements of the Company dated 10 April 2014, 24 April 2015, 9 January 2018 and 1 April 2019 in relation to the establishment, increase of limit and update of the Programme.

The Board is pleased to announce that on 25 May 2020, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information.

The Company also proposes to conduct an international offering of the Notes under the Programme to certain professional investors. The Notes will be issued in series with different issue dates and terms and may be denominated in any currency subject to compliance with all relevant laws, regulations and directives. The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interests. None of the Notes will be offered to the public in Hong Kong, the United States, or any other jurisdictions, nor will the Notes be placed to any connected person(s) of the Company.

As at the date of this announcement, the Company has US\$12 billion Notes outstanding under the Programme.

In connection with the Programme and the Proposed Notes Issue, the Company will provide certain professional investors with recent corporate and financial information. For the purposes of a transparent and timely dissemination of information to Shareholders and the broader investment community, an extract of the relevant information which relates to the management's discussion and analysis of financial condition and results of the operations of the Group is attached hereto.

The Company has appointed BofA Securities and Deutsche Bank as the arrangers under the Programme.

BofA Securities, HSBC, Morgan Stanley and Goldman Sachs are the joint global coordinators in respect of the Proposed Notes Issue.

**As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interests. Investors and Shareholders are advised to exercise caution when dealing in the securities of the Company.**

**Further announcement in respect of the Proposed Notes Issue will be made by the Company as and when appropriate.**

## **UPDATE OF THE PROGRAMME**

### **Introduction**

References are made to the announcements of the Company dated 10 April 2014, 24 April 2015, 9 January 2018 and 1 April 2019 in relation to the establishment, increase of limit and update of the Programme.

The Board is pleased to announce that on 25 May 2020, the Company has updated the Programme to include, among other things, the Company's recent corporate and financial information.

The Company has appointed BofA Securities and Deutsche Bank as the arrangers under the Programme by way of an amended and restated dealer agreement dated 24 April 2015 which was further amended on 1 April 2019 and 25 May 2020.

As at the date of this announcement, the Company has US\$12 billion Notes outstanding under the Programme.

### **Listing**

An application has been made by the Company to the Stock Exchange for the listing of the Programme within 12 months after 25 May 2020 by way of debt issues (to certain professional investors only). In relation to any issue of the Notes, the Company has the option to agree with the relevant dealer(s) to list the Notes on the Stock Exchange or any other recognised stock exchanges.

### **Proposed use of net proceeds**

The Company currently intends to use the net proceeds from each issue of the Notes to be issued under the Programme for the Company's general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

## **PROPOSED NOTES ISSUE**

### **Introduction**

The Company proposes to conduct an international offering of the Notes under the Programme to certain professional investors. In connection with the Programme and the Proposed Notes Issue, the Company will provide certain professional investors with recent corporate and financial information. For the purposes of a transparent and timely dissemination of information to Shareholders and the broader investment community, an extract of the relevant information which relates to the management's discussion and analysis of financial condition and results of the operations of the Group is attached hereto.

The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interests. BofA Securities, HSBC, Morgan Stanley and Goldman Sachs are the joint global coordinators in respect of the Proposed Notes Issue.

The Notes to be issued by the Company have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States. The Notes will only be offered (i) in the United States to qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or in transactions not subject to the registration requirements of the U.S. Securities Act and (ii) in offshore transactions to Non-U.S. Persons in compliance with Regulation S. None of the Notes will be offered to the public in Hong Kong, the United States, or any other jurisdictions, nor will the Notes be placed to any connected person(s) of the Company.

### **Listing**

The Company intends to seek a listing of the Notes on the Stock Exchange. Admission of the Notes to the official list of the Stock Exchange and quotation of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Company or the Notes.

## GENERAL

**As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. The completion of the Proposed Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interests. Investors and Shareholders are advised to exercise caution when dealing in the securities of the Company.**

**Further announcement in respect of the Proposed Notes Issue will be made by the Company as and when appropriate.**

## DEFINITION

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

<b>Term</b>	<b>Definition</b>
“Board”	the board of directors of the Company
“BofA Securities”	Merrill Lynch (Asia Pacific) Limited
“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 SEHK
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deutsche Bank”	Deutsche Bank AG, Singapore branch
“Goldman Sachs”	Goldman Sachs (Asia) L.L.C.
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Morgan Stanley”	Morgan Stanley & Co. International plc
“Non-U.S. Persons”	persons who are not U.S. persons as defined under Regulation S
“Notes”	the medium term notes under the Programme
“Pricing Supplement”	the document which sets out the terms specific to each series of the Notes to be issued under the Programme
“Programme”	the global medium term note programme established by the Company by way of a dealer agreement dated 10 April 2014 (as amended and restated by an amended and restated dealer agreement dated 24 April 2015 which was further amended on 1 April 2019 and 25 May 2020) and as updated and modified from time to time
“Proposed Notes Issue”	the proposed issue of the Notes
“Regulation S”	Regulation S under the U.S. Securities Act
“Rule 144A”	Rule 144A under the U.S. Securities Act
“Share(s)”	the ordinary share(s) with par value of HK\$0.00002 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“U.S.” or “United States”	the United States of America, its territories and possessions and all areas subject to its jurisdiction

“U.S. Securities Act”                      the United States Securities Act of 1933, as amended

“US\$”                                          United States dollars, the lawful currency of the United States

By Order of the Board  
**Ma Huateng**  
*Chairman*

25 May 2020

*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, Yang Siu Shun and Ke Yang.

*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 the future. Underlying these forward-looking statements are a lot 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.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following is a discussion of our financial condition and results of operations as at and for the years ended 31 December 2017, 2018 and 2019, and the three months ended 31 March 2019 and 2020, and of the material factors that we believe are likely to affect our financial condition and results of operations. You should read this section in conjunction with our audited and unaudited consolidated financial statements included in this Offering Circular beginning on page F-2. Our consolidated financial statements have been prepared in accordance with IFRS.*

*In preparing the audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019, we have adopted the new accounting standards as and when they came into effect and have not restated the prior years' financial statements as permitted under the IFRSs. Therefore, the audited consolidated financial statements as at and for the years ended 31 December 2017, 2018 and 2019 may not be comparable. For the impact on adoption of the new accounting standards, please refer to Note 2.2 to our audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 included elsewhere in this Offering Circular. See "Risk Factors — Risks Relating to Notes Issued under the Programme — Our financial statements for the years ended 31 December 2018 and 2019 may not be comparable with the financial statements for previous years".*

*In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Circular, including "Risk Factors".*

### OVERVIEW

We are a leading integrated Internet services company operating a broad range of Internet services including communication and social, online games, digital content, online advertising, FinTech, cloud and other services for our users, advertisers, merchants and enterprise partners. We develop and deliver highly popular products and services to enhance the quality of life for users and to maximise business opportunities for enterprises and industries through digital transformation.

We operate the largest communication and social community in China in terms of user base. Our massive communication and social platforms provide a foundation for our online community and serve as a gateway for our VAS. We had the largest number of DAU and MAU among social communities on both mobile and PC in March 2020, according to iResearch. *Weixin* and *WeChat* has a combined MAU of 1,202.5 million and smart device MAU of *QQ* was 693.5 million as at 31 March 2020. Our social community users are also the most engaged in China, with *QQ*, *Weixin* and *WeChat* users accounting for 88% of time spent in social networks in March 2020, according to iResearch.

Our social products link our users to a vast array of best-in-class digital content and multimedia services across the globe. We are the largest online game platform globally by revenues, with 14% global market share in 2019, according to Newzoo. We have developed and published highly popular games in a variety of genres and have expanded into tactical tournaments. During 2019, we experienced rapid growth in our international online game business due to our enhanced development and publishing capability. In addition to establishing our original IP franchises, we have developed external partnerships via a number of new investments in best-in-genre studios. We have also established leading digital content platforms that include video, news, music, literature and others, generating both subscription and usage-based revenues. By driving synergies across our digital content platforms, we have significantly enhanced the value of our IP portfolio. Consequently, our substantial and engaged user base, combined with our unique data insights and advanced digital advertising technology, present an attractive proposition to advertisers.



As an industry leader and global pioneer of innovative technology solutions, our platforms and services connect users, content providers, enterprises and developers. We have built strong relationships with key strategic partners, connecting our own and our partners' quality content and a wide variety of services to consumers. The numerous *Weixin/WeChat* services, such as *Weixin Mini Programs* and *Weixin Pay*, are becoming increasingly interconnected and hubs of mobile connectivity. *Weixin Mini Programs* connect online and offline services with users on *Weixin/WeChat*. These services are reshaping the lifestyles of consumers as well as helping companies digitalise their businesses by tapping into growing smart-business and smart-living needs, which covers more offline consumption scenarios, such as retail, healthcare, mobility etc. The number of daily transactions generated within *Weixin Mini Programs* more than doubled year-on-year, and their transaction value exceeded RMB800 billion in 2019. We have expanded our businesses from the Consumer Internet into the Industrial Internet to help enterprises adapt to the digital economy and optimise operations.

For our FinTech business, our payment service has expanded from social and entertainment to commercial activities, and from online to offline transactions. Our social payment functions such as red packets and bill sharing simplify peer-to-peer transfers, whereas our commercial payment services facilitate fast and seamless experiences for both eCommerce transactions and offline consumption scenarios. As such, our commercial payment transaction volume is growing rapidly and diversifying from large online merchants to small to mid-sized offline merchants. Our mobile payment services also provide a platform for distribution of a variety of FinTech services. Our robust payment infrastructure provides high levels of payment security, service reliability and transaction speed. During 2019, we strengthened our leadership in mobile payment services through deepening our penetration among offline merchants. Our wealth management service and lending services have also experienced rapid growth. Our wealth management platform, *LiCaiTong*, increased its aggregate customer assets over 50% year-on-year, while its number of customers more than doubled year-on-year in the fourth quarter of 2019 as we expanded into the mass market. Our affiliate *WeBank* rapidly grew the loan balances of its micro-loan product, *WeiLiDai*, while maintaining a healthy credit risk performance.

In Business services, we develop and drive adoption of both cloud-based vertical industry solutions and enterprise functional applications, enabling businesses and other partners to better connect with our users, and assisting digitalisation and transformation of the economy. *Tencent Cloud* is a high-performance cloud service that powers our ecosystem and is offered to third party enterprises to meet their computing and storage infrastructure as well as other technology needs. *Tencent Cloud* is layered with advanced technologies in cloud computing, data analytics, artificial intelligence, security and location-based services. Our cloud services have enjoyed robust growth and maintain a leading market position in verticals such as online games, video and live broadcast. We have further expanded our cloud-based enterprise services in industry verticals such as Internet services, retail, tourism, municipal services and industrial sectors. As at 31 December 2019, our number of paying customers exceeded 1 million. Our cloud services are the foundation for our smart industry solutions, helping to digitally transform and empower businesses that are conventionally offline. We enhanced our SaaS offerings via our products, e.g. *Tencent Meeting* and *WeChat Work*, and external partnerships. We enhanced our cloud services operating efficiency as our scale grew.

Our business provides value for users, application developers, content providers, advertisers, merchants and enterprises in various industries. Currently, we have four lines of business:

- **Value-added Services** — Our VAS business consists mainly of social networks and online games.
- **Social networks** — We are a leading provider of social networks in China, with clear leadership in communication and social platforms, including *QQ* and *Weixin/WeChat*. Our social networks generate revenues from membership privileges and subscriptions of a diverse and comprehensive range of digital content services such as video, music and literature, as well as virtual item sales and others.

- **Online games** — We are the largest online games platform in the world by revenues with 14% global market share and 49% China market share in 2019, according to Newzoo and iResearch, respectively. We have strong in-house development capabilities, demonstrated by our highly acclaimed in-house games in a variety of genres such as battle arena (*Honour of Kings*, *League of Legends*), racing (*QQ Speed Mobile*), strategy (*King of Chaos*) and tactical tournament (*PUBG Mobile* and *Peacekeeper Elite*). We are also the partner of choice for game publishers due to our leading distribution capabilities in China and globally.
- **Online Advertising** — Our online advertising services primarily comprise social and others advertising and media advertising. Social and others advertising relates to advertising on our social properties, such as *QQ KanDian*, *Kuaibao*, *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts* and *Weixin Top Stories*, our utilities properties, such as application store and browser, as well as mobile advertising network. Media advertising relates to advertising on our video, news, music and other online media properties. Significant traffic on our various properties offers ample advertising opportunities. Through leveraging our comprehensive ecosystem, scale and user insights, we drive relevant and targeted advertising to generate higher returns for advertisers.
- **FinTech and Business Services** — Our FinTech and Business services mainly comprise FinTech services such as mobile payment, wealth management, lending, and cloud services and other enterprise-facing services. We are a market leading mobile payment platform in China. In the fourth quarter of 2019, our mobile payment services exceeded 1 billion daily average transactions for our commercial payments, covered over 800 million MAU and worked with over 50 million monthly active merchants. We provide enterprises and developers with a suite of cloud based services, including IaaS (such as cloud computing, storage and CDN), PaaS (such as database, video services, data security and artificial intelligence) and SaaS (such as *Tencent Meeting*, *WeChat Work* and third party SaaS products).

Our expansive product offerings, advanced technologies and infrastructure services form a hub for fulfilling people's lifestyle needs, including social and communication, entertainment, information, O2O and FinTech services. We further broaden the types and the number of services offered to our users by enabling third parties partners to offer services and products on our platforms. Through strategic partnerships with category leaders, we continue to expand our ecosystem and deepen engagement with our users. We, including our affiliates such as *JD.com*, *Meituan Dianping*, *Pinduoduo* have large platforms across a variety of Internet categories, and collectively we have 14 out of the top 30 applications ranked by DAU in December 2019 in China, according to QuestMobile.

In addition to growing our core businesses organically, we make strategic investments in best-in-class companies. As we focus our management attention and company resources on our own core platforms, we also capture emerging opportunities in adjacent verticals through investee companies. By the end of 2019, over 70 of our investee companies are publicly listed, and more than 160 investee companies valued at over US\$1 billion each. We enrich our IP portfolio including games, video, music and literature via upstream investments, and broaden user reach and engagement via investments in vertical platforms. We work with businesses that can expand our offerings to meet evolving user needs, and accelerate the adoption of our enterprise services and products, such as O2O and smart retail companies, which has helped expand our payment service penetration and advertiser base. We use investments as a tool for better understanding frontier technologies which will become important to our future, such as robotics and artificial intelligence. Our investments have created value for our investee companies by offering them access to our large user base, and providing them infrastructure, technology and capital support to bolster their growth.

We commenced our business in November 1998 and were listed on the SEHK in June 2004 (Stock Code: 00700). We have been one of the constituent stocks of the Hang Seng Index since June 2008. For the year ended 31 December 2019, our total revenues was RMB377,289 million and our profit for the year was

RMB95,888 million, an increase of 21% and 20%, over the year ended 31 December 2018, respectively. For the three months ended 31 March 2020, our total revenues was RMB108,065 million (US\$15,262 million) and our profit for the period was RMB29,403 million (US\$4,152 million), an increase of 26% and 6%, respectively, over the three months ended 31 March 2019. As at 31 March 2020, our cash and cash equivalents, as well as term deposits and others amounted to RMB220,584 million (US\$31,152 million).

## **SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

We believe that the most significant factors that have affected or are expected to affect our results of operations and financial condition include, among others:

### **Ability to increase the engagement and monetisation of our vast user base**

The growth of our business and revenues depends on our ability to deepen user engagement and further increase the monetisation of our vast user base. We have seen a modest growth in our *Weixin* and *WeChat* user base and maintained large numbers of *QQ* users on smart devices. As at 31 March 2020, combined MAU of *Weixin* and *WeChat* reached 1,202.5 million, an increase of 8.2%, from 1,111.7 million as at 31 March 2019, and smart device MAU of *QQ* was 693.5 million.

We believe the depth of user engagement of our massive online communities are our critical competitive advantages. We continue to increase user engagement by enhancing user experience and broadening our products and services, creating opportunities for our ecosystem partners. For instance, we have introduced high quality content across our variety of online media platforms, including online games, video, news, music, literature and others. We have also sought to integrate these media platforms with our social platforms to create a holistic and differentiated social experience for users. The numerous *Weixin/WeChat* services, such as *Weixin Mini Programs* and *Weixin Pay*, are becoming increasingly interconnected and are reshaping the lifestyles of consumers as well as helping companies digitalise their businesses by tapping into growing smart-business and smart-living needs.

We continuously seek to leverage the size of our user base and integrated nature of our platforms to build up user traffic for our new services and products, as well as drive revenue growth from VAS, online advertising and FinTech and business services. In addition, our large and logged-in user base and our leadership in mobile payment services also makes our platforms more attractive to online advertisers and merchant partners.

We generate VAS revenues from user subscriptions and item-based sales. We believe that the size of our user base also serves as the foundation for converting non-paying users into paying users. We have accumulated expertise in cross-marketing our services and products across our massive user base and have been successful in migrating a large number of our users for *QQ* and *Weixin* and other free services to fee-based services and products such as *QQ Membership*, video and music subscription services. In addition, through creating a highly engaging and interactive social experience, we also generate revenues from selling virtual items and gifts. Our diverse collection of content, including differentiated and exclusive content, on our major digital media platforms, including video, music, literature and others, help attract users and drive conversion into paying users. Our ability to secure high quality and wide ranging content that match users' tastes and preferences will affect the monetisation capability and financial performance of our digital media platforms. These in turn help to support the growth of our VAS revenues.

We have also monetised user traffic generated from our various digital media and social platforms through online advertising. Through leveraging our comprehensive ecosystem, scale and data insights, we drive relevant and targeted advertising to generate higher returns for advertisers. Leveraging our data and technology, we believe we have taken substantial market share in ad networks, where we have experienced robust revenue growth and improved operating margin.

For our FinTech business, we also strive to increase user engagement and monetisation of our vast user base. Our payment service has expanded from social and entertainment to commercial activities, and from online to offline transactions. Combined with our cloud services business, we provide infrastructure support and mobile payment tools through *Weixin Pay* and *QQ Wallet* to connect merchants and consumers. As such, our commercial payment transaction volume is growing rapidly, which drives our revenue from FinTech services through commissions from payment by merchants. Our large user base and high traffic also brought increasing demands for our other FinTech services, such as wealth management, which increased our commission-based revenue from such services. For our cloud services, revenue exceeded RMB17 billion, and our number of paying customers exceeded 1 million in 2019. We mainly charge our enterprise customers on either a subscription or consumption basis.

### **Ability to maintain our market position and enhance our brand**

We have capitalised on our early-mover advantage and have established a strong market position and built a brand name widely recognised by consumers and industry participants. Users may select our platforms, products and services because of our existing market position and brand reputation. For example, *QQ* is a widely recognised brand in China and users seeking to join a communication and social platform will likely consider *QQ* as their primary choice because of the brand recognition and market leading position. Similarly, *Weixin/WeChat* has become the leading mobile communication and social platform in China. In January 2017, *Weixin/WeChat* launched *Weixin Mini Programs*, which helped our users access low-frequency use cases, offline services and accessible, lightweight introductions to third party services.

We have also maintained our leadership in the online games market in China and globally leveraging the success of our in-house and licensed titles. The top smart phone game in China, *Honour of Kings*, was developed by our in-house games studio, *Timi Studios*, and the top PC client game in China, *League of Legends*, was developed in-house by our subsidiary, *Riot Games*. Leveraging our flagship games franchises, we strengthened our eSports global leadership with *LoL's World Championship* and *Honour of Kings' King Pro League*, which were the most watched events for PC and smart phone games, respectively in 2019. We reinforced our position as the preferred Chinese publisher for local and overseas game developers, including *Electronic Arts*, *Activision Blizzard*, *Take2* and *Nexon* for PC client games, as well as *Shengqu Games*, *Changyou*, *Giant Interactive* and *Kingsoft* for smart phone games. Internationally, we expanded our presence through investments, acquisitions and overseas subsidiaries such as *Supercell* and *Riot Games*, and we also published some internally developed smart phone games globally. Our capability of maintaining the large user base and deepening user engagement of our communication and social platforms are the keys to our ability to compete effectively and maintain our leading brand and market position as well as attract and expand relationships with our advertising customers and, in turn, grow our revenues.

With our expanding user base, our diverse products and platforms have gained considerable influence in wider society. Our products and platforms may be subject to increased scrutiny. As a response, we have implemented our upgraded Healthy Gameplay System in online games. The system has resulted in minors spending significantly less time in the affected games without a material impact on time spent by adult players.

### **Ability to develop, acquire and licence content and applications**

In order to attract and maintain usage of our platforms, we need to develop, acquire and licence relevant content and applications for our users. Our ability to maintain existing licence arrangements, procure new licence arrangements and develop relevant content and applications will affect our users' engagement and usage of our platforms. We have devoted significant resources to the research and development of content and applications in order to keep our existing platforms relevant and attractive to users. As we seek to expand our business lines and diversify our portfolio of services and products, our ability to manage and control our third party content and applications costs while maintaining the high quality and attractiveness of our content and applications will continue to affect our results of operations going forward.

### **Ability to maintain relationships with strategic partners**

We derive value and benefits from our co-operative arrangements with a number of online game developers, content providers, application developers, application store operators (including Apple iOS application store and other Android application stores), device manufacturers, merchants, suppliers, advertising agencies and telecommunications operators. The VAS fees are paid directly by end users mainly via online payment channels. A portion of the fees for our VAS is collected through the networks of *China Mobile*, *China Unicom* and *China Telecom* through revenue sharing arrangements that are periodically renewed. We have adopted an open platform strategy and many of our platforms, including *QQ*, *Qzone*, *WeGame*, *Weixin/WeChat*, and *YingYongBao*, support third party applications. We also have arrangements with advertising agencies. Our relationship with various content providers, including writers, music labels and video production studios, is critical for us to secure access to high quality copyrighted content on our media platforms.

The content costs (excluding amortisation of intangible assets), plus channel and distribution costs and bandwidth and server custody fees, were RMB64,489 million for the year ended 31 December 2017. The content costs (excluding amortisation of intangible assets), plus transaction costs and bandwidth and server custody fees (excluding depreciation of right-of-use assets), were RMB124,855 million, RMB150,307 million, RMB33,798 million and RMB39,116 million (US\$5,524 million) for the years ended 31 December 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.

Our ability to maintain existing, as well as to develop and foster new, strategic partnerships will be significant factors to strengthen our ability to meet the increasingly complex demands of our users and customers, expand our distribution channels and diversify our revenue streams.

### **Ability to continue offering services and products that are attractive to users**

Our financial condition and results of operations depend on the attractiveness and demand for our service and product offerings. The rapid evolution of available technologies and infrastructure in the Internet and telecommunications industries, such as the expansion of advanced mobile data platforms, may allow us to deliver more innovative product and service offerings to our users.

Online games represent one of the key growth drivers for our VAS business. We must continue to diversify our game portfolio and broaden our user base through the introduction of new game titles, new expansion packs and new play-modes that can increase the lifespans of our popular smart phone game titles and further increase monetisation. We also strive to leverage our platforms to accelerate the growth of smart phone games, while reinforcing our leadership in PC client games. We must also identify and offer new game genres that can capture the growth potential of the industry in order to achieve sustainable growth of our online game business.

Our social networks also represent a key growth driver for our VAS business. To maintain our leadership position and financial success of our social platforms, we must continue to secure high quality, relevant and diverse digital content that is attractive to our users. For instance, *TME* has strategic distribution agreements with the three largest global music labels, namely *Universal Music Group*, *Warner Music Group* and *Sony Music Group*.

### **Ability to innovate and compete effectively against market competitors**

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



We focus on user experience by keeping track of the development of new technologies in a timely manner, capturing changes in user experience, and continuously developing products to meet the expectations of the market. In addition, as a proponent of “Internet+” and Industrial Internet and in order to foster its leading position in the industry, we have established a number of open platforms and strengthened our cooperation with business partners with the aim of enhancing mutual benefit.

We not only encourage our employees to innovate, but also allocate considerable resources to the research and development of new technologies and the optimisation of product features as well as enhancement of user experience of products.

A number of large competing ecosystems have emerged in China, built around industry leaders with significant scale. Competition from large technology ecosystems in China could have an impact on our performance. We enjoy a competitive advantage of having a massive and highly engaged user base, differentiated and wide ranging content and service offering, as well as strong financial, operational and technology capabilities.

### **PRC regulations affecting the Internet and telecommunications industries**

As a majority of our operations are located in China, our results of operations, financial condition and prospects are subject to regulatory developments in China. The Internet, telecommunications and other related industries of China are highly regulated. Regulations issued or implemented by the State Council, MIIT, MOC, SAPPRFT and other relevant government authorities cover many aspects of our telecommunications, Internet information and other related services, including entry into the telecommunications industry, the scope of permissible business activities, licences and permits for various business activities and foreign investment. See “*General Regulation on Internet and Telecommunications Industries*” for further description. For example, because a significant portion of our revenues from products and services rely on large Internet user communities, any regulations that affect Internet access and usage, such as those relating to online game usage, operations of Internet cafes and other establishments, Internet privacy, imported games, mobile subscriber cancellation policies and other regulations, will affect the ways we operate and provide our services and products.

In addition, certain of our Chinese subsidiaries and consolidated controlled entities are qualified as “High and New Technology Enterprises”, “Software Enterprises” or “Key Software Enterprises” and are entitled to certain preferential tax treatments. Any adverse changes in the status of such preferential tax treatments or exemptions would increase the costs of our business.

### **Macroeconomic conditions in the markets where we operate**

Our results of operations and financial condition are affected by economic conditions in China and, to a lesser extent, the economic conditions of the rest of the world. China has experienced rapid economic growth over the past three decades. The growth of the Chinese economy has led to significant increases in personal wealth and per capita annual disposable income which, in turn, has increased demand for VAS and products that we provide in our various business segments.

The continuing maturation of the Chinese economy has been attended by a gradual slowdown in economic growth. Although we strive to price most of our products and services at an affordable level for average users, which also results in our earnings and cash flows being more resilient to economic cycles, macroeconomic conditions such as concerns about the COVID-19 pandemic, potential overinvestment and overleveraging in the Chinese economy, and concerns about a renewed global recession similar to the economic crisis in 2008 and trade disputes, may impact the growth of the Chinese economy and China-focused businesses like us. The advertising industry is particularly sensitive to economic downturns and a negative economic outlook could cause expenditures for Internet access and consumer discretionary spending to decrease, thereby affecting our online advertising businesses. Further, the deterioration in economic conditions in China and globally may harm the business of our customers, especially the enterprise customers, who may experience reduced business volume, and therefore decrease or delay their

advertising and marketing spending or reduce their budgets or other spending across our platforms. In addition, there may be delay in the deployment of our cloud projects due to the negative impact on our enterprise customers by the deterioration in economic conditions. Further, it is unclear how Chinese economic conditions could impact PRC regulations, taxation or monetary policies, which could also affect our growth strategies, business operations and access to additional capital.

### **Recruitment, compensation and retention of employees**

The performance of our employees has a significant effect on our business. For example, our senior management team uses its experience and understanding of the Chinese Internet and telecommunications industries, local user preferences and key industry players to formulate future growth strategies and respond to industry changes. Skilled research and development personnel are also critical to our development of new services and products (such as new online games) and leverage upon new technologies and infrastructures.

The number of our full-time employees was 44,796, 54,309, 62,885, 54,623 and 64,238 as at 31 December 2017, 2018 and 2019 and as at 31 March 2019 and 2020, respectively. As our workforce expands, we incur additional staff costs as costs of revenues and operating expenses to our business. Our total remuneration costs were RMB34,866 million, RMB42,153 million, RMB53,123 million, RMB11,616 million and RMB15,143 million (US\$2,139 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively. To further our growth, we will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation and invest in programmes such as training, bonus and share-based compensation, which would further affect our remuneration costs.

### **BASIS OF PRESENTATION**

During the periods presented in the consolidated financial statements, we derived substantially all of our revenues under a series of contractual arrangements between our WFOEs and our consolidated affiliated entities. These contractual arrangements are designed to provide us and the WFOEs with effective control over, and (to the extent permitted by PRC law) the right to acquire the equity interests in and assets of our consolidated affiliated entities. Based on such contractual arrangements, we have concluded that it is appropriate to consolidate the financial statements of our consolidated affiliated entities, notwithstanding the lack of direct share ownership, because, in substance, the contractual arrangements transfer the economic risks and benefits of these consolidated affiliated entities to us.

Our consolidated affiliated entities include, among others, *Tencent Computer, Shiji Kaixuan and Beijing Starsinhand Technology Company Limited*. See “Risk Factors — Risks Related to our Corporate Structure — If the PRC government finds that the agreements that establish the structure for operating our services in China do not comply with PRC governmental restrictions on foreign investment in Internet businesses, value-added telecommunications businesses or other related businesses, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “Risk Factors — Risks Related to our Corporate Structure — The contractual arrangements with the consolidated affiliated entities and their shareholders, which relate to critical aspects of our operations may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law”.

## DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

### Revenues

We generate our revenues primarily from four lines of business:

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

Our revenues were RMB237,760 million, RMB312,694 million, RMB377,289 million, RMB85,465 million and RMB108,065 million (US\$15,262 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively. The following table sets forth our revenues by line of business for the years/ periods indicated:

	Year ended 31 December						Three months ended 31 March				
	2017		2018		2019		2019		2020		
	(Audited)		(Audited)		(Audited)		(Unaudited)		(Unaudited)		
	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	% of Total Revenues	(RMB in millions)	(US\$ in millions)	% of Total Revenues
<b>Revenues</b>											
VAS .....	153,983	65%	176,646	56%	199,991	53%	48,974	57%	62,429	8,817	58%
FinTech and Business Services <sup>(1)</sup> .....	–	–	73,138	23%	101,355	27%	21,789	25%	26,475	3,739	25%
Online Advertising.....	40,439	17%	58,079	19%	68,377	18%	13,377	16%	17,713	2,502	16%
Others <sup>(1)</sup> .....	43,338	18%	4,831	2%	7,566	2%	1,325	2%	1,448	204	1%
Total revenues .....	<u>237,760</u>	<u>100%</u>	<u>312,694</u>	<u>100%</u>	<u>377,289</u>	<u>100%</u>	<u>85,465</u>	<u>100%</u>	<u>108,065</u>	<u>15,262</u>	<u>100%</u>

Note:

- (1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our 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. The new “FinTech and Business Services” segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

### VAS

Revenues from VAS are derived principally from the provisions of online games, privileges subscriptions, digital content services and applications across various online platforms. Our VAS is primarily provided on a subscription basis, per-item basis or revenue share basis.

We derive a substantial portion of online games revenues from virtual item sales. We have an extensive portfolio of market leading game titles across genres on both smart phone and PC. As at 31 March 2020, we had over 40 PC game titles and over 100 smart phone game titles.



We also derive revenues from the massive and engaged user base across our social networks and platforms. Through providing upgrades to higher membership status and more VAS, including *QQ Super VIP* and *QQ Membership* subscription services, we generate privilege subscription revenues from membership. In addition, we also generate subscription revenues from offering access to premium digital content and other privileges on our digital content platforms, including *QQ Music VIP Membership* and *Tencent Video VIP Membership*. Through creating a highly engaging and interactive social experience, we also generate revenues from selling virtual items and gifts. Another key contributor to our social networks is our revenue derived from item sales which were generated from our application store *QQ Game Centre*, *Weixin Game Centre* and *YingYongBao* as well as live broadcast services and video streaming subscriptions.

Revenues from VAS were RMB153,983 million, RMB176,646 million, RMB199,991 million, RMB48,974 million and RMB62,429 million (US\$8,817 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.

For a detailed discussion of how revenues from VAS is recognised in our consolidated financial statements, see “— *Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — VAS*”.

### ***FinTech and Business Services***

FinTech and Business Services revenues mainly comprise revenues derived from provision of FinTech and cloud services. FinTech service revenues mainly include commissions from payment by merchants, wealth management platform and other FinTech services. Cloud services are mainly charged on either a subscription or consumption basis.

Revenues from FinTech and Business Services were included in Others for the year ended 31 December 2017. FinTech and Business Services has been separated from Others segment from the first quarter of 2019 onwards. The comparative figures in 2018 have been restated to conform with the new presentation. Revenues from FinTech and Business Services were RMB73,138 million, RMB101,355 million, RMB21,789 million and RMB26,475 million (US\$3,739 million) for the years ended 31 December 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.

For a detailed discussion of how revenues from VAS is recognised in our consolidated financial statements, see “— *Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — FinTech and Business Services*”.

### ***Online Advertising***

Our Online Advertising services primarily comprise social and others advertising and media advertising. Social and others advertising relates to advertising on our social properties, such as *QQ KanDian*, *Kuaibao*, *Weixin Moments*, *Weixin Mini Programs*, *Weixin Official Accounts* and *Weixin Top Stories*, our utilities properties, such as application store and browser, as well as mobile advertising network. Media advertising relates to advertising on our video, news, music, literature and other online media properties. Significant traffic on our various properties offer ample advertising opportunities. Through leveraging our comprehensive ecosystem, scale and data insights, we drive relevant and targeted advertising to generate attractive returns for advertisers.

Revenues from Online Advertising were RMB40,439 million, RMB58,079 million, RMB68,377 million, RMB13,377 million and RMB17,713 million (US\$2,502 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.

For a detailed discussion of how revenues from Online Advertising is recognised in our consolidated financial statements, see “— *Critical Accounting Policies, Estimates and Judgments — Revenue Recognition — Online Advertising*”.

## Others

Revenues from our other businesses are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. Revenues from others were RMB43,338 million (including revenues from FinTech and Business Services for the year ended 31 December 2017), RMB4,831 million, RMB7,566 million, RMB1,325 million and RMB1,448 million (US\$204 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.

## Cost of revenues

Our cost of revenues was RMB120,835 million, RMB170,574 million, RMB209,756 million, RMB45,645 million and RMB55,271 million (US\$7,806 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.

Cost of revenues consists of the direct costs for operating and offering our services and products, which consist primarily of transaction costs, content costs, bandwidth and server custody fees, equipment depreciation and other direct costs. Employee benefits expenses that directly relate to the provision of our services and products are also included in cost of revenues. The following table sets forth our cost of revenues by line of business for the years/ periods indicated:

	Year ended 31 December						Three months ended 31 March				
	2017		2018		2019		2019		2020		
	(Audited)		(Audited)		(Audited)		(Unaudited)		(Unaudited)		
	(RMB in millions)	% of segment revenues	(RMB in millions)	% of segment revenues	(RMB in millions)	% of segment revenues	(RMB in millions)	% of segment revenues	(RMB in millions)	(US\$ in millions)	% of segment revenues
<b>Cost of Revenues</b>											
VAS.....	61,389	40%	73,961	42%	94,086	47%	20,781	42%	25,577	3,612	41%
FinTech and Business Services <sup>(1)</sup> .....	–	–	54,598	75%	73,831	73%	15,581	72%	19,093	2,696	72%
Online Advertising .....	25,586	63%	37,273	64%	34,860	51%	7,776	58%	9,003	1,271	51%
Others <sup>(1)</sup> .....	33,860	78%	4,742	98%	6,979	92%	1,507	114%	1,598	227	110%
Total cost of revenues .....	<u>120,835</u>		<u>170,574</u>		<u>209,756</u>		<u>45,645</u>		<u>55,271</u>	<u>7,806</u>	

### Note:

- (1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our 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. The new “FinTech and Business Services” segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

## Interest income

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

### ***Other gains, net***

Other gains, net consist primarily of net gains/losses on disposals and deemed disposals of investee companies, net fair value gains/losses on FVPL, net fair value gains/losses on other financial instruments, impairment provision/reversal for investee companies and intangible assets arising from acquisitions, subsidies and tax rebates, dividend income, donations and provision/reversal on accounts receivable and other receivables.

### ***Selling and marketing expenses***

Selling and marketing expenses primarily consist of costs incurred with our promotional and advertising activities, such as purchasing third party advertising, holding promotion events and related employee benefits expenses. In recent years, our selling and marketing expenses have increased as we continue to launch and promote new services and seek to enhance our brand recognition.

### ***General and administrative expenses***

General and administrative expenses primarily consist of research and development expenses, related employee benefits expense, office rental/depreciation of right-of-use assets, travel and entertainment expenses, consulting fees, office maintenance and other general office expenses.

### ***Finance costs, net***

Finance costs, net include interest expenses primarily arising from our borrowings, notes payable and lease liabilities, as well as foreign currency exchange gains or losses.

### ***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**

We were not subject to any taxation in the Cayman Islands and the British Virgin Islands for the years ended 31 December 2017, 2018 and 2019, and for the three months ended 31 March 2019 and 2020.

#### **(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, 2018 and 2019, and for the three months ended 31 March 2019 and 2020.

#### **(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 our entities established in Mainland China for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020. The general PRC corporate income tax rate is 25% in 2017, 2018 and 2019, and for the three months ended 31 March 2019 and 2020.

Certain of our subsidiaries in Mainland China were approved as High and New Technology Enterprise, and accordingly, they were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2017, 2018 and 2019, and for the three months ended 31 March 2019 and 2020. Moreover, according to announcement and circular issued by relevant government authorities, certain subsidiaries that qualified as national key software enterprises were subject to a preferential corporate income tax rate of 10%.

In addition, according to relevant tax circulars issued by Mainland China tax authorities, certain subsidiaries of the Company are entitled to other tax concessions, mainly including the preferential policy of “2-year exemption and 3-year half rate concession” and the preferential tax rate of 15% applicable for some subsidiaries located in certain areas of Mainland China upon fulfillment of certain requirements of the respective local governments.

(iv) 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 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 36% for the years ended 31 December 2017, 2018 and 2019, and for the three months ended 31 March 2019 and 2020.

(v) Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in Mainland China 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 us will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

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

## **CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS**

We have identified certain accounting policies that are significant to the preparation of our consolidated financial information. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involved the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting the estimates may differ significantly from management’s current judgments. We believe the following represents our critical accounting policies, judgments and estimates.

### **Revenue recognition**

We generate revenues primarily from provision of VAS, FinTech and Business Services, Online Advertising services and other online related services in the PRC. Revenue is recognised when the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

## VAS

Revenues from VAS primarily include revenues from the provision of online games and social networks services. Online games revenues are mainly derived from sales of in-game virtual items, and social networks revenues are mainly derived from sales of virtual products such as VAS subscriptions across various online platforms, and games revenues attributable to social networks business. We offer virtual products/items to users on our online platforms. The VAS fees are paid directly by end users mainly via online payment channels.

Revenue from VAS is recognised when we satisfy its performance obligations by rendering services. Given we have an explicit or implicit obligation to maintain the virtual products/items operated on our platforms and allow users to gain access to them, revenue is recognised 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.

Where the contracts include multiple performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

In respect of our VAS services directly delivered to our customers and paid through various third-party platforms, these third-party platforms collect the relevant service fees (the “**Online Service Fees**”) on behalf of us and they are entitled to a pre-determined percentage of platform provider 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 us. We recognise the Online Service Fees as revenue on a gross basis, given it acts as the principal in these transactions based on the assessment according to the criteria, and recognise such Channel and distribution costs as cost of revenues.

We also open our online platforms to third-party game/application developers under certain co-operation agreements, of which we pay to the third-party game/application developers a pre-determined percentage of the fees paid by and collected from the users of our online platforms for the virtual products/items purchased. We recognise the related revenue on a gross or net basis depending on whether we are acting as a principal or an agent in the transaction. We adopt different revenue recognition methods based on our specific responsibilities/obligations in different VAS offerings.

### *FinTech and Business Services*

FinTech and Business Services revenues mainly comprise revenues derived from provision of FinTech and cloud services.

FinTech service revenues mainly include commissions from payment by merchants, wealth management platform and other FinTech services, which is generally determined as a percentage based on the value of transaction amount or retention amount. Revenue related to such commissions is recognised upon a time when performance obligations are satisfied by rendering services.

Cloud services are mainly charged on either a subscription or consumption basis. For cloud service contracts billed based on a fixed amount for a specified service period, revenue is recognised over the subscribed period when the services are delivered to customers. For cloud service provided on a consumption basis, revenue is recognised based on the customer utilisation of the resources. When a cloud-based service includes multiple performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

## ***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.

Advertising contracts are signed to establish the prices and advertising services to be provided based on different arrangements, including display-based advertising that are display of advertisements for an agreed period of time, and performance-based advertising.

Revenue from display-based advertising is recognised 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. Revenue from performance-based advertising is recognised when relevant specific performance measures are fulfilled. Where the contracts include multiple performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, which is determined based on the prices charged to or expected to recover from customers.

## ***Other revenues***

Our other revenues are primarily derived from production of and distribution of, films and television programmes for third parties, copyrights licensing, merchandise sales and various other activities. We recognise other revenues when the respective services are rendered, or when the control of the products are transferred to customers.

## **Share-based compensation benefits**

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

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing model, "Enhanced FAS 123" binomial model (the "**Binomial Model**"), which includes the impact of market performance conditions (such as our 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 our shares at the grant date. We also adopt valuation techniques to assess the fair value of our other equity instruments granted under the share-based compensation plans as appropriate.

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

From our perspective, we grant our equity instruments to employees of our subsidiaries in exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses are treated as part of the "Investments in subsidiaries" in our statement of financial position.

At each reporting period end, we revise our estimates of the number of options and awarded shares that are expected to ultimately vest. We recognise the impact of the revision to original estimates, if any, in our consolidated income statement, with a corresponding adjustment 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.

If we repurchase vested equity instruments, the payment made to the employees 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 employees and other qualifying participants, as measured at the date of modification.

Cash-settled share-based payment transactions are those arrangements which the terms provide us to settle the transaction in cash. Upon the vesting conditions, if any, are met, we shall account for that transaction as a cash-settled share-based payment transaction if, and to the extent that, we have incurred a liability to settle in cash.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at the end of the reporting period. We adopt valuation technique to assess the fair value of such equity instruments granted under the share-based compensation plans as appropriate.

### **Income taxes**

We are subject to income taxes in numerous jurisdictions. Significant judgment 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.

### **Recoverability of non-financial assets**

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

Judgment is required to identify any impairment indicators existing for any of our goodwill, other non-financial assets 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 our 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.

### **Fair value measurement of FVPL, FVOCI and other financial liabilities**

The fair value assessment of FVPL, FVOCI and other financial liabilities that are measured at level 3 fair value hierarchy requires significant estimates, which include risk-free rates, expected volatility, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.



## RESULTS OF OPERATIONS

### Three Months Ended 31 March 2020 Compared to Three Months Ended 31 March 2019

**Revenues.** Revenues increased by RMB22,600 million, or 26%, from RMB85,465 million for the three months ended 31 March 2019 to RMB108,065 million (US\$15,262 million) for the three months ended 31 March 2020.

The following table sets forth our revenues by line of business for the three months ended 31 March 2019 and 2020:

	Three months ended 31 March				
	2019		2020		
	(Unaudited)		(Unaudited)		
	Amount	% of total revenues	Amount	Amount	% of total revenues
(RMB in millions)		(RMB in millions)	(US\$ in millions)		
VAS .....	48,974	57%	62,429	8,817	58%
FinTech and Business Services .....	21,789	25%	26,475	3,739	25%
Online Advertising .....	13,377	16%	17,713	2,502	16%
Others .....	1,325	2%	1,448	204	1%
<b>Total revenues .....</b>	<b>85,465</b>	<b>100%</b>	<b>108,065</b>	<b>15,262</b>	<b>100%</b>

Revenues from VAS increased by RMB13,455 million, or 27%, from RMB48,974 million for the three months ended 31 March 2019 to RMB62,429 million (US\$8,817 million) for the three months ended 31 March 2020. Online games revenues grew by 31% to RMB37,298 million (US\$5,268 million) for the three months ended 31 March 2020. The increase primarily reflected revenue contributions from domestic smart phone games such as *Peacekeeper Elite* and *Honour of Kings*, as well as increased contributions from our overseas titles including *PUBG Mobile* and *Clash of Clans*, partly offset by lower revenues from PC client games such as *Dungeon and Fighter*. Total smart phone games revenues (including smart phone games revenues attributable to our social networks business) were RMB34,756 million (US\$4,908 million) and PC client games revenues were RMB11,795 million (US\$1,666 million) for the three months ended 31 March 2020. Social networks revenues increased by 23% to RMB25,131 million (US\$3,549 million) for the three months ended 31 March 2020. The increase was primarily driven by greater revenue contributions from in-game virtual item sales as well as digital content services including music streaming and video streaming subscriptions.

Revenues from FinTech and Business Services increased by RMB4,686 million, or 22%, from RMB21,789 million for the three months ended 31 March 2019 to RMB26,475 million (US\$3,739 million) for the three months ended 31 March 2020. The increase was primarily due to revenue growth from commercial payment and wealth management platform, as well as greater revenue contributions from cloud services capturing opportunities in verticals including video, education and retail sectors.

Revenues from Online Advertising increased by RMB4,336 million, or 32%, from RMB13,377 million for the three months ended 31 March 2019 to RMB17,713 million (US\$2,502 million) for the three months ended 31 March 2020. Social and others advertising revenues grew by 47% to RMB14,592 million (US\$2,061 million). The increase mainly reflected higher advertising revenues derived from increased inventories and impressions from our mobile advertising network and *Weixin Moments*. Media advertising revenues decreased by 10% to RMB3,121 million (US\$441 million) for the three months ended 31 March 2020. The decrease was primarily due to lower revenues from our video and news platforms as a result of weak macro-economic conditions and suspension of sports events.



**Cost of revenues.** Cost of revenues increased by RMB9,626 million, or 21%, from RMB45,645 million for the three months ended 31 March 2019 to RMB55,271 million (US\$7,806 million) for the three months ended 31 March 2020. The increase was mainly driven by greater costs of FinTech services, channel costs as well as server and bandwidth costs. As a percentage of revenues, cost of revenues decreased to 51% for the three months ended 31 March 2020 from 53% for the three months ended 31 March 2019.

The following table sets forth our cost of revenues by line of business for the three months ended 31 March 2019 and 2020:

	Three months ended 31 March				
	2019		2020		
	(Unaudited)		(Unaudited)		
	Amount	% of segment revenues	Amount	Amount	% of segment revenues
(RMB in millions)		(RMB in millions)	(US\$ in millions)		
VAS .....	20,781	42%	25,577	3,612	41%
FinTech and Business Services .....	15,581	72%	19,093	2,696	72%
Online Advertising .....	7,776	58%	9,003	1,271	51%
Others .....	1,507	114%	1,598	227	110%
<b>Total cost of revenues .....</b>	<b>45,645</b>		<b>55,271</b>	<b>7,806</b>	

Cost of revenues for VAS increased by RMB4,796 million, or 23%, from RMB20,781 million for the three months ended 31 March 2019 to RMB25,577 million (US\$3,612 million) for the three months ended 31 March 2020. The increase was mainly due to greater content and channel costs for smart phone games as well as higher server and bandwidth costs, as our users consumed more entertainment services during the stay-at-home period.

Cost of revenues for FinTech and Business Services increased by RMB3,512 million, or 23%, from RMB15,581 million for the three months ended 31 March 2019 to RMB19,093 million (US\$2,696 million) for the three months ended 31 March 2020. The increase mainly reflected the greater scale of our commercial payment and cloud businesses.

Cost of revenues for Online Advertising increased by RMB1,227 million, or 16%, from RMB7,776 million for the three months ended 31 March 2019 to RMB9,003 million (US\$1,271 million) for the three months ended 31 March 2020. The increase was mainly driven by greater traffic acquisition costs, as well as server and bandwidth costs, partly offset by lower content costs for video advertising due to delays in airing of variety shows.

**Gross profit.** Gross profit increased by RMB12,974 million, or 33%, from RMB39,820 million for the three months ended 31 March 2019 to RMB52,794 million (US\$7,456 million) for the three months ended 31 March 2020. Our gross margin was 49% for the three months ended 31 March 2020 as compared to 47% for the three months ended 31 March 2019.

**Interest income.** Interest income increased by RMB228 million, or 16%, from RMB1,408 million for the three months ended 31 March 2019 to RMB1,636 million (US\$231 million) for the three months ended 31 March 2020.

**Other gains, net.** We recorded net other gains of RMB4,037 million (US\$570 million) for the three months ended 31 March 2020, which mainly comprised of non-IFRS adjustment items including net gains on disposals of certain investee companies, as well as net fair value gains on investee companies. Such gains were partially offset by RMB2,600 million (US\$367 million) of donations we made primarily to combat the pandemic globally.

**Selling and marketing expenses.** Selling and marketing expenses increased by RMB2,805 million, or 66%, from RMB4,244 million for the three months ended 31 March 2019 to RMB7,049 million (US\$996 million) for the three months ended 31 March 2020. The increase was mainly due to greater marketing spending for some of our newer services including *Weishi*, arising from its marketing campaigns during the Chinese New Year. As a percentage of revenues, selling and marketing expenses increased to 7% for the three months ended 31 March 2020 from 5% for the three months ended 31 March 2019.

**General and administrative expenses.** General and administrative expenses increased by RMB2,827 million, or 25%, from RMB11,331 million for the three months ended 31 March 2019 to RMB14,158 million (US\$1,999 million) for the three months ended 31 March 2020. The increase mainly reflected greater R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses were 13% for the three months ended 31 March 2020, broadly stable year-on-year.

**Operating profit.** Operating profit increased by RMB518 million, or 1%, from RMB36,742 million for the three months ended 31 March 2019 to RMB37,260 million (US\$5,262 million) for the three months ended 31 March 2020.

**Finance costs, net.** Net finance costs increased by RMB567 million, or 51%, from RMB1,117 million for the three months ended 31 March 2019 to RMB1,684 million (US\$238 million) for the three months ended 31 March 2020. The increase was primarily driven by greater interest expenses as a result of higher amount of indebtedness.

**Share of losses of associates and joint ventures.** We recorded share of losses of associates and joint ventures of RMB281 million (US\$40 million) for the three months ended 31 March 2020, compared to share of losses of RMB2,957 million for the three months ended 31 March 2019. The change was mainly due to non-IFRS adjustment items of certain associates.

**Profit before income tax.** Profit before income tax increased by RMB2,627 million, or 8%, from RMB32,668 million for the three months ended 31 March 2019 to RMB35,295 million (US\$4,984 million) for the three months ended 31 March 2020.

**Income tax expense.** Income tax expense was RMB5,892 million (US\$832 million) and RMB4,812 million for the three months ended 31 March 2020 and 2019 respectively.

**Profit for the period.** As a result of the factors discussed above, profit for the period increased by RMB1,547 million, or 6%, from RMB27,856 million for the three months ended 31 March 2019 to RMB29,403 million (US\$4,152 million) for the three months ended 31 March 2020. Our profit margin decreased from 33% for the three months ended 31 March 2019 to 27% for the three months ended 31 March 2020.

**Profit attributable to equity holders of the Company.** Profit attributable to equity holders of the Company increased by 6% to RMB28,896 million (US\$4,081 million) for the three months ended 31 March 2020 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company<sup>2</sup> increased by 29% year-on-year to RMB27,079 million (US\$3,824 million) for the three months ended 31 March 2020.

<sup>2</sup> Non-IFRS profit attributable to equity holders of the Company represents the profit attributable to equity holders of the Company after adjusting for share-based compensation, net (gains)/losses from investee companies, amortisation of intangible assets, impairment provisions and the related income tax effects.

## Year Ended 31 December 2019 Compared to Year Ended 31 December 2018

**Revenues.** Revenues increased by 21% to RMB377,289 million for the year ended 31 December 2019 on a year-on-year basis.

The following table sets forth our revenues by line of business for the years ended 31 December 2018 and 2019:

	Year ended 31 December			
	2018		2019	
	(Audited)		(Audited)	
	Amount (Restated)	% of total revenues (Restated)	Amount	% of total revenues
(RMB in millions)		(RMB in millions)		
VAS .....	176,646	56%	199,991	53%
FinTech and Business Services <sup>(1)</sup> .....	73,138	23%	101,355	27%
Online Advertising .....	58,079	19%	68,377	18%
Others <sup>(1)</sup> .....	4,831	2%	7,566	2%
<b>Total revenues</b> .....	<b>312,694</b>	<b>100%</b>	<b>377,289</b>	<b>100%</b>

Note:

- (1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our 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. The new “FinTech and Business Services” segment primarily consists of the financials of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

Revenues from VAS business increased by 13% year-on-year to RMB199,991 million for the year ended 31 December 2019. Online games revenues grew by 10% to RMB114,710 million for the year ended 31 December 2019. The increase was primarily due to revenue contributions from domestic smart phone games including *Honour of Kings* and *Peacekeeper Elite*, as well as increased contributions from our overseas titles such as *PUBG Mobile* and *Supercell* titles, partly offset by the revenue decline from PC client games such as *Dungeon and Fighter*. Social networks revenues increased by 17% to RMB85,281 million for the year ended 31 December 2019. The increase mainly reflected revenue growth from digital content services such as live broadcast services and video streaming subscriptions.

Revenues from FinTech and Business Services increased by 39% year-on-year to RMB101,355 million for the year ended 31 December 2019. The increase was primarily driven by greater revenues from commercial payment due to increased daily active consumers and number of transactions per user. Greater revenues from cloud services also contributed to the annual growth.

Revenues from Online Advertising business increased by 18% year-on-year to RMB68,377 million for the year ended 31 December 2019. Social and others advertising revenues grew by 33% to RMB52,897 million for the year ended 31 December 2019. The increase mainly reflected higher advertising revenues derived from *Weixin* (primarily *Weixin Moments* and *Mini Programs*) as a result of its increased inventories and impressions, as well as contributions from our mobile advertising network due to increased traffic and video inventories. Media advertising revenues decreased by 15% to RMB15,480 million for the year ended

31 December 2019. The decrease was primarily due to lower advertising revenues from our media platforms including *Tencent Video* and *Tencent News* resulting from unpredictability in broadcast schedules and the challenging macro-environment, as well as the absence of the *FIFA World Cup* in year 2019.

**Cost of revenues.** Cost of revenues increased by 23% year-on-year to RMB209,756 million for the year ended 31 December 2019. The increase primarily reflected greater content costs, costs of FinTech services and channel costs. As a percentage of revenues, cost of revenues increased to 56% for the year ended 31 December 2019 from 55% for the year ended 31 December 2018.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2018 and 2019:

	Year ended 31 December			
	2018		2019	
	(Audited)		(Audited)	
	Amount (Restated)	% of segment revenues (Restated)	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS .....	73,961	42%	94,086	47%
FinTech and Business Services <sup>(1)</sup> .....	54,598	75%	73,831	73%
Online Advertising .....	37,273	64%	34,860	51%
Others <sup>(1)</sup> .....	4,742	98%	6,979	92%
<b>Total cost of revenues .....</b>	<b><u>170,574</u></b>		<b><u>209,756</u></b>	

*Note:*

(1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our 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. The new “FinTech and Business Services” segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

Cost of revenues for VAS increased by 27% year-on-year to RMB94,086 million for the year ended 31 December 2019. The increase was mainly due to greater content costs for services and products such as live broadcast services, online games and video streaming subscriptions, as well as channel costs for smart phone games.

Cost of revenues for FinTech and Business Services increased by 35% year-on-year to RMB73,831 million for the year ended 31 December 2019. The increase primarily reflected greater costs of payment-related and cloud services due to the enhanced scale of our payment and cloud activities.

Cost of revenues for Online Advertising decreased by 6% year-on-year to RMB34,860 million for the year ended 31 December 2019. The decrease was mainly driven by lower content costs for our advertising-funded long form video service resulting from fewer content releases and improved cost efficiency, partly offset by other cost items.

**Gross profit.** Gross profit increased by RMB25,413 million, or 18%, from RMB142,120 million for the year ended 31 December 2018 to RMB167,533 million for the year ended 31 December 2019. Our gross margin was 44% for the year ended 31 December 2019 as compared to 45% for the year ended 31 December 2018.

**Interest income.** Interest income increased by RMB1,745 million, or 38%, from RMB4,569 million for the year ended 31 December 2018 to RMB6,314 million for the year ended 31 December 2019.

**Other gains, net.** We recorded net other gains totalling RMB19,689 million for the year ended 31 December 2019, which primarily comprised of non-IFRS adjustment items such as fair value gains arising from increased valuations for certain investee companies in verticals such as FinTech services, social media and education, as well as net deemed disposal gains arising from the capital activities of certain investee companies in verticals including transportation services and online games.

**Selling and marketing expenses.** Selling and marketing expenses decreased by 12% to RMB21,396 million for the year ended 31 December 2019 on a year-on-year basis. The decrease was mainly due to the reduction of advertising and promotion expenses as a result of improved operational efficiencies. As a percentage of revenues, selling and marketing expenses decreased to 6% for the year ended 31 December 2019 from 8% for the year ended 31 December 2018.

**General and administrative expenses.** General and administrative expenses increased by 29% to RMB53,446 million for the year ended 31 December 2019 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 increased to 14% for the year ended 31 December 2019 from 13% for the year ended 31 December 2018.

**Operating profit.** Operating profit increased by RMB21,046 million, or 22%, from RMB97,648 million for the year ended 31 December 2018 to RMB118,694 million for the year ended 31 December 2019.

**Finance costs, net.** Net finance costs increased by 63% to RMB7,613 million for the year ended 31 December 2019 on a year-on-year basis. The increase primarily reflected greater interest expenses resulting from higher amounts of indebtedness.

**Share of (loss)/profit of associates and joint ventures.** We recorded share of losses of associates and joint ventures of RMB1,681 million for the year ended 31 December 2019, compared to share of profit of RMB1,487 million for the year ended 31 December 2018. The change was mainly due to non-cash charges booked by certain associates.

**Profit before income tax.** Profit before income tax increased by RMB14,934 million, or 16%, from RMB94,466 million for the year ended 31 December 2018 to RMB109,400 million for the year ended 31 December 2019.

**Income tax expense.** Income tax expense decreased by 7% to RMB13,512 million for the year ended 31 December 2019 on a year-on-year basis. The decrease mainly reflected the entitlements of preferential tax treatments and benefits.

**Profit for the year.** As a result of the factors discussed above, profit for the year increased by RMB15,904 million, or 20%, from RMB79,984 million for the year ended 31 December 2018 to RMB95,888 million for the year ended 31 December 2019. Our profit margin decreased from 26% for the year ended 31 December 2018 to 25% for the year ended 31 December 2019.

**Profit attributable to equity holders of the Company.** Profit attributable to equity holders of the Company increased by 19% to RMB93,310 million for the year ended 31 December 2019 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 22% to RMB94,351 million for the year ended 31 December 2019.

### Year Ended 31 December 2018 Compared to Year Ended 31 December 2017

*Our consolidated financial information as at and for the year ended 31 December 2018 included in this section titled “Year Ended 31 December 2018 Compared to Year Ended 31 December 2017” has been derived from our audited consolidated financial statements as at and for the year ended 31 December 2018 and have not been restated to conform with the new presentation of our consolidated financial statements as at and for the year ended 31 December 2019. Please refer to Notes 2.2 and 5 to our audited consolidated financial statements as at and for the year ended 31 December 2019 for more details.*

**Revenues.** Revenues increased by RMB74,934 million, or 32%, from RMB237,760 million for the year ended 31 December 2017 to RMB312,694 million for the year ended 31 December 2018.

The following table sets forth our revenues by line of business for the years ended 31 December 2017 and 2018:

	Year ended 31 December			
	2017		2018	
	(Audited)		(Audited)	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions)		(RMB in millions)	
VAS .....	153,983	65%	176,646	56%
Online Advertising .....	40,439	17%	58,079	19%
Others .....	43,338	18%	77,969	25%
<b>Total revenues.....</b>	<b>237,760</b>	<b>100%</b>	<b>312,694</b>	<b>100%</b>

Revenues from VAS business increased by RMB22,663 million, or 15%, from RMB153,983 million for the year ended 31 December 2017 to RMB176,646 million for the year ended 31 December 2018. Online games revenues grew by 6% to RMB103,992 million for the year ended 31 December 2018. The increase primarily reflected growth in revenues from our existing smart phone games such as *Honour of Kings* and *QQ Speed Mobile*, and new titles such as *MU Awakening* and *QQ Dancers Mobile*. Revenues from our PC client games decreased mainly due to users’ time shift to smart phone games although some individual PC games performed robustly. Social networks revenues increased by 30% to RMB72,654 million. The increase was mainly due to higher contributions from our digital content services such as live broadcast services and video streaming subscriptions, as well as from in-game virtual item sales.

Revenues from Online Advertising business increased by RMB17,640 million, or 44%, from RMB40,439 million for the year ended 31 December 2017 to RMB58,079 million for the year ended 31 December 2018. Social and others advertising revenues increased by 55% to RMB39,773 million. The increase mainly reflected higher advertising revenues derived from *Weixin Moments*, *Weixin Mini Programs* and our mobile advertising network. Media advertising revenues grew by 23% to RMB18,306 million. The increase was primarily driven by greater advertising revenues from *Tencent Video*.



Revenues from Others increased by RMB34,631 million, or 80%, from RMB43,338 million for the year ended 31 December 2017 to RMB77,969 million for the year ended 31 December 2018. The increase was mainly due to revenue growth from our FinTech and cloud services.

**Cost of revenues.** Cost of revenues increased by RMB49,739 million, or 41%, from RMB120,835 million for the year ended 31 December 2017 to RMB170,574 million for the year ended 31 December 2018. The increase primarily reflected greater content costs, costs of FinTech services, and channel costs. As a percentage of revenues, cost of revenues increased to 55% for the year ended 31 December 2018 from 51% for the year ended 31 December 2017.

The following table sets forth our cost of revenues by line of business for the years ended 31 December 2017 and 2018:

	Year ended 31 December			
	2017		2018	
	(Audited)		(Audited)	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions)		(RMB in millions)	
VAS .....	61,389	40%	73,961	42%
Online Advertising .....	25,586	63%	37,273	64%
Others .....	33,860	78%	59,340	76%
<b>Total cost of revenues .....</b>	<b><u>120,835</u></b>		<b><u>170,574</u></b>	

Cost of revenues for VAS increased by RMB12,572 million, or 20%, from RMB61,389 million for the year ended 31 December 2017 to RMB73,961 million for the year ended 31 December 2018. The increase was mainly due to greater content costs for services and products including live broadcast, video streaming subscriptions and online games, as well as higher channel costs for our smart phone games.

Cost of revenues for Online Advertising increased by RMB11,687 million, or 46%, from RMB25,586 million for the year ended 31 December 2017 to RMB37,273 million for the year ended 31 December 2018. The increase was primarily driven by greater content costs, traffic acquisition costs and advertising commissions.

Cost of revenues for Others increased by RMB25,480 million, or 75%, from RMB33,860 million for the year ended 31 December 2017 to RMB59,340 million for the year ended 31 December 2018, mainly reflecting the increased scale of our FinTech and cloud services.

**Gross profit.** Gross profit increased by RMB25,195 million, or 22%, from RMB116,925 million for the year ended 31 December 2017 to RMB142,120 million for the year ended 31 December 2018. Our gross margin was 45% for the year ended 31 December 2018 as compared to 49% for the year ended 31 December 2017.

**Interest income.** Interest income increased by RMB629 million, or 16%, from RMB3,940 million for the year ended 31 December 2017 to RMB4,569 million for the year ended 31 December 2018.

**Other gains, net.** We recorded net other gains totalling RMB16,714 million for the year ended 31 December 2018. There were increases in valuations for certain investee companies, including a fair value gain from *Meituan Dianping* upon its IPO, partly offset by impairment provisions for certain other investee companies.

**Selling and marketing expenses.** Selling and marketing expenses increased by RMB6,581 million, or 37%, from RMB17,652 million for the year ended 31 December 2017 to RMB24,233 million for the year ended 31 December 2018. The increase was mainly driven by greater marketing spending on services and products such as digital content services, FinTech services and smart phone games. As a percentage of revenues, selling and marketing expenses increased to 8% for the year ended 31 December 2018 from 7% for the year ended 31 December 2017.

**General and administrative expenses.** General and administrative expenses increased by RMB8,471 million, or 26%, from RMB33,051 million for the year ended 31 December 2017 to RMB41,522 million for the year ended 31 December 2018. The increase mainly reflected greater R&D expenses and staff costs as a result of our expanded business volume. As a percentage of revenues, general and administrative expenses decreased to 13% for the year ended 31 December 2018 from 14% for the year ended 31 December 2017.

**Operating profit.** Operating profit increased by RMB7,346 million, or 8%, from RMB90,302 million for the year ended 31 December 2017 to RMB97,648 million for the year ended 31 December 2018.

**Finance costs, net.** Net finance costs increased by RMB1,761 million, or 61%, from RMB2,908 million for the year ended 31 December 2017 to RMB4,669 million for the year ended 31 December 2018. The increase primarily reflected greater interest expenses driven by higher amount of indebtedness.

**Profit before income tax.** Profit before income tax increased by RMB6,251 million, or 7%, from RMB88,215 million for the year ended 31 December 2017 to RMB94,466 million for the year ended 31 December 2018.

**Income tax expense.** Income tax expense decreased by RMB1,262 million, or 8%, from RMB15,744 million for the year ended 31 December 2017 to RMB14,482 million for the year ended 31 December 2018. The decrease was mainly due to the entitlements of preferential tax treatments and benefits.

**Profit for the year.** As a result of the factors discussed above, profit for the year increased by RMB7,513 million, or 10%, from RMB72,471 million for the year ended 31 December 2017 to RMB79,984 million for the year ended 31 December 2018. Our profit margin decreased from 30% for the year ended 31 December 2017 to 26% for the year ended 31 December 2018.

**Profit attributable to equity holders of the Company.** Profit attributable to equity holders of the Company increased by RMB7,209 million, or 10%, from RMB71,510 million for the year ended 31 December 2017 to RMB78,719 million for the year ended 31 December 2018.



## QUARTERLY RESULTS OF OPERATIONS

The following table presents our unaudited quarterly results of operations for the most recent eight quarters. You should read the table in conjunction with the consolidated financial information contained elsewhere in this Offering Circular. This table includes all adjustments, consisting only of normal recurring adjustments that we consider necessary to fairly present results of operations for the quarters presented. Results of operations for any quarter are not necessarily indicative of results for any future quarters or full year.

	Three months ended (Unaudited)							
	30 June 2018 (Restated)	30 September 2018 (Restated)	31 December 2018 (Restated)	31 March 2019	30 June 2019	30 September 2019	31 December 2019	31 March 2020
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
<b>Revenues:</b>								
VAS .....	42,069	44,049	43,651	48,974	48,080	50,629	52,308	62,429
FinTech and Business Services <sup>(1)</sup> .....	16,666	19,693	21,597	21,789	22,888	26,758	29,920	26,475
Online Advertising .....	14,110	16,247	17,033	13,377	16,409	18,366	20,225	17,713
Others <sup>(1)</sup> .....	830	606	2,615	1,325	1,444	1,483	3,314	1,448
<b>Total revenues</b> .....	<b>73,675</b>	<b>80,595</b>	<b>84,896</b>	<b>85,465</b>	<b>88,821</b>	<b>97,236</b>	<b>105,767</b>	<b>108,065</b>
Cost of revenues .....	(39,229)	(45,115)	(49,744)	(45,645)	(49,695)	(54,757)	(59,659)	(55,271)
<b>Gross profit</b> .....	<b>34,446</b>	<b>35,480</b>	<b>35,152</b>	<b>39,820</b>	<b>39,126</b>	<b>42,479</b>	<b>46,108</b>	<b>52,794</b>
Interest income .....	1,072	1,082	1,350	1,408	1,652	1,674	1,580	1,636
Other gains/(losses), net.....	2,506	8,762	(2,139)	11,089	4,038	932	3,630	4,037
Selling and marketing expenses .....	(6,360)	(6,573)	(5,730)	(4,244)	(4,718)	(5,722)	(6,712)	(7,049)
General and administrative expenses .....	(9,857)	(10,890)	(11,345)	(11,331)	(12,577)	(13,536)	(16,002)	(14,158)
<b>Operating profit</b> .....	<b>21,807</b>	<b>27,861</b>	<b>17,288</b>	<b>36,742</b>	<b>27,521</b>	<b>25,827</b>	<b>28,604</b>	<b>37,260</b>
Finance costs, net .....	(1,151)	(1,492)	(1,372)	(1,117)	(1,982)	(1,747)	(2,767)	(1,684)
Share of profit/(loss) of associates and joint ventures.....	1,526	264	16	(2,957)	2,370	234	(1,328)	(281)
<b>Profit before income tax</b> ....	<b>22,182</b>	<b>26,633</b>	<b>15,932</b>	<b>32,668</b>	<b>27,909</b>	<b>24,314</b>	<b>24,509</b>	<b>35,295</b>
Income tax expense.....	(3,602)	(3,228)	(1,906)	(4,812)	(3,225)	(3,338)	(2,137)	(5,892)
<b>Profit for the period</b> .....	<b>18,580</b>	<b>23,405</b>	<b>14,026</b>	<b>27,856</b>	<b>24,684</b>	<b>20,976</b>	<b>22,372</b>	<b>29,403</b>

*Note:*

- (1) In view of the increased scale and business importance of payments, financial and enterprise-facing activities, and to help investors better understand our 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. The new “FinTech and Business Services” segment primarily consists of: (a) payment, wealth management and other FinTech services; and (b) cloud services and other enterprise-facing activities such as our Smart Retail initiative. The comparative figures in 2018 have been restated to conform with the new presentation.

We experienced growth in our quarterly revenues for the eight quarters in the period from 1 April 2018 to 31 March 2020.

## LIQUIDITY AND CAPITAL RESOURCES

On a consolidated basis, we currently fund our operations primarily with cash flows from operating activities. Our cash requirements relate primarily to:

- our working capital requirements, such as transaction costs, content costs (excluding amortisation of intangible assets), employee benefits expenses, bandwidth and server custody fees (excluding depreciation of right-of-use assets), sales and marketing expenses, as well as research and development expenses; and
- costs associated with the expansion of our business.

We had cash and cash equivalents of RMB105,697 million, RMB97,814 million, RMB132,991 million and RMB135,270 million (US\$19,104 million) as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively. Our term deposits and others included in current and non-current assets were RMB42,540 million, RMB69,305 million, RMB72,270 million and RMB85,314 million (US\$12,048 million) as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively.

We bill and collect revenues for our VAS principally through these prepaid channels: mobile payment solutions (*Weixin Pay*, *QQ Wallet* and application store), online banking and our *e-sales system*. A majority of our revenues from VAS are prepaid, allowing us to minimise our credit risk.

Our accounts receivable were RMB16,549 million, RMB28,427 million, RMB35,839 million and RMB42,869 million (US\$6,054 million) as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively which mainly represented amounts due from online advertising customers and agencies, 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 obligations 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 FinTech and cloud customers, are usually granted with a credit period within 90 days.

Our accounts payable were RMB50,085 million, RMB73,735 million, RMB80,690 million and RMB88,176 million (US\$12,453 million) as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively. We normally settle the amount due to us according to the terms of our contracts.

## Cash Flows

The following table sets forth our cash flows information for the years ended 31 December 2017, 2018 and 2019 and for the three months ended 31 March 2019 and 2020:

	Year ended 31 December			Three months ended 31 March		
	2017	2018	2019	2019	2020	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(Unaudited) (RMB in millions) (US\$ in millions)	
Net cash flows generated from operating activities <sup>(3)</sup> .....	106,140	110,936	148,590	28,799	54,661	7,720
Net cash flows used in investing activities <sup>(1)</sup> .....	(96,392)	(151,913)	(116,170)	(21,376)	(52,253)	(7,380)
Net cash flows generated from/(used in) financing activities <sup>(2)(3)</sup> .....	26,598	30,887	1,672	5,580	(761)	(107)
Net increase/(decrease) in cash and cash equivalents .....	36,346	(10,090)	34,092	13,003	1,647	233
Cash and cash equivalents at beginning of year/period .....	71,902	105,697	97,814	97,814	132,991	18,782
Exchange (losses)/gains on cash and cash equivalents .....	(2,551)	2,207	1,085	(1,125)	632	89
Cash and cash equivalents at end of year/period .....	<u>105,697</u>	<u>97,814</u>	<u>132,991</u>	<u>109,692</u>	<u>135,270</u>	<u>19,104</u>

Note:

- (1) Includes, among others, payment for capital expenditures as well as video and music content, game licences and other content. Payment for capital expenditure represents the amount paid for purchase of property, plant and equipment, construction in progress and investment properties, payments for land use rights and intangible assets (excluding video and music content, game licences and other content), which amounted to RMB12,768 million, RMB23,092 million, RMB28,331 million, RMB4,866 million and RMB9,442 million (US\$1,333 million) for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020, respectively.
- (2) Includes, among others, dividends paid to our shareholders and non-controlling interest owners, which amounted to RMB5,998 million, RMB7,396 million, RMB9,453 million and RMB238 million for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019, respectively. Dividends paid to non-controlling interest owners amounted to RMB341 million (US\$48 million) for the three months ended 31 March 2020.
- (3) Since the first quarter of 2019, we have reclassified interest paid in cash flow presentation from operating activities to financing activities, which better reflects the nature of business. The comparative figures in 2018 have been reclassified to conform with the new presentation.

### Cash Flows from Operating Activities

For the three months ended 31 March 2020, we had a net cash inflow from operating activities in the amount of RMB54,661 million (US\$7,720 million). This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB43,144 million and changes in working capital in the amount of RMB16,590 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB5,073 million. The changes in working capital primarily

consisted of (i) an increase in deferred revenue of RMB22,310 million, (ii) an increase in accounts payable of RMB10,591 million, and (iii) a decrease in inventories of RMB117 million, partially offset by (i) an increase in accounts receivable of RMB7,030 million, (ii) an increase in prepayments, deposits and other receivables of RMB6,166 million, (iii) a decrease in other payables and accruals of RMB3,041 million, and (iv) a decrease in other tax liabilities of RMB197 million.

In 2019, we had a net cash inflow from operating activities in the amount of RMB148,590 million. This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB150,488 million and changes in working capital in the amount of RMB15,330 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB17,228 million. The changes in working capital primarily consisted of (i) an increase in deferred revenue of RMB12,054 million, (ii) an increase in other payables and accruals of RMB7,022 million, (iii) an increase in accounts payable of RMB6,445 million, and (iv) an increase in other tax liabilities of RMB193 million, partially offset by (i) an increase in accounts receivable of RMB6,037 million, (ii) an increase in prepayments, deposits and other receivables of RMB3,953 million, and (iii) an increase in inventories of RMB394 million.

In 2018, we had a net cash inflow from operating activities in the amount of RMB110,936 million. This was primarily a result of cash flows generated from operations before changes in working capital in the amount of RMB120,966 million and changes in working capital in the amount of RMB4,491 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB14,521 million. The changes in working capital primarily consisted of an increase in accounts payable of RMB22,955 million, partially offset by (i) an increase in accounts receivable of RMB10,302 million, (ii) an increase in prepayments, deposits and other receivables of RMB4,050 million, (iii) a decrease in other payables and accruals of RMB3,559 million, (iv) a decrease in deferred revenue of RMB505 million, (v) an increase in inventories of RMB29 million, and (vi) a decrease in other tax liabilities of RMB19 million.

In 2017, we had a net cash inflow from operating activities in the amount of RMB106,140 million. This was primarily a result of cash flows generated from operation before changes in working capital in the amount of RMB96,339 million and changes in working capital in the amount of RMB23,663 million. Our net cash inflow from operating activities was after deduction of income tax paid of RMB13,862 million. The changes in working capital primarily consisted of (i) an increase in accounts payable of RMB16,134 million, (ii) an increase in deferred revenue of RMB9,117 million, (iii) an increase in other payables and accruals of RMB8,422 million, and (iv) an increase in other tax liabilities of RMB189 million, partially offset by (i) an increase in accounts receivable of RMB6,400 million, (ii) an increase in prepayments, deposits and other receivables of RMB3,760 million, and (iii) an increase in inventories of RMB39 million.

#### ***Cash Flows from Investing Activities***

Net cash used in investing activities for the three months ended 31 March 2020 was RMB52,253 million (US\$7,380 million), primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB19,010 million, net placement flow of term deposits with initial terms of over three months in the amount of RMB13,267 million, payments for acquisition of investments in associates in the amount of RMB11,010 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB9,203 million, and purchase of or prepayment for intangible assets in the amount of RMB5,325 million, partially offset by proceeds from disposals of financial assets at fair value through profit or loss of RMB2,421 million and proceeds from disposals of financial assets at fair value through other comprehensive income of RMB2,233 million.

Net cash used in investing activities for the year ended 31 December 2019 was RMB116,170 million, primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB39,827 million, purchase of or prepayment for intangible assets in the amount of RMB29,866 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB22,766 million, payments for acquisition of investments in associates in

the amount of RMB14,904 million, payments for settlement of other financial liabilities in the amount of RMB11,391 million, and payments for acquisition of financial assets at fair value through other comprehensive income in the amount of RMB9,425 million, partially offset by proceeds from disposals of financial assets at fair value through profit or loss of RMB15,744 million and interest received of RMB6,230 million.

Net cash used in investing activities for the year ended 31 December 2018 was RMB151,913 million, primarily reflecting the payments for acquisition of financial assets at fair value through profit or loss in the amount of RMB54,141 million, payments for acquisition of investments in associates in the amount of RMB37,776 million, purchase of or prepayment for intangible assets in the amount of RMB31,877 million, net placement flow of term deposits with initial terms of over three months in the amount of RMB20,828 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB19,743 million, and payments for acquisition of financial assets at fair value through other comprehensive income in the amount of RMB17,669 million, partially offset by proceeds from disposals of financial assets at fair value through other comprehensive income of RMB22,224 million, proceeds from disposals of financial assets at fair value through profit or loss of RMB11,254 million and interest received of RMB4,435 million.

Net cash used in investing activities for the year ended 31 December 2017 was RMB96,392 million, primarily reflecting payments for available-for-sale financial assets and related derivative financial instruments in the amount of RMB47,716 million, purchase of or prepayment for intangible assets in the amount of RMB19,850 million, payments for acquisition of investments in associates in the amount of RMB17,528 million, payments for acquisition of investments in redeemable preference shares of associates in the amount of RMB16,384 million, purchase of property, plant and equipment, construction in progress and investment properties in the amount of RMB12,108 million, and payments for acquisition of investments in joint ventures of RMB7,091 million, partially offset by net receipt from maturity of term deposits with initial terms of over three months in the amount of RMB13,646 million, proceeds from disposals of available-for-sale financial assets of RMB4,705 million, and interest received of RMB3,529 million.

#### *Cash Flows from Financing Activities*

Net cash used in financing activities for the three months ended 31 March 2020 was RMB761 million (US\$107 million), primarily reflecting payments of notes payable of RMB9,365 million, repayments of short-term borrowings of RMB6,066 million, repayments of long-term borrowings of RMB3,945 million, interest paid of RMB2,003 million, principal elements of lease payments of RMB697 million, and dividends paid to the non-controlling interests of RMB341 million, partially offset by proceeds from long-term borrowings of RMB18,217 million and proceeds from short-term borrowings of RMB3,507 million.

Net cash generated from financing activities for the year ended 31 December 2019 was RMB1,672 million, primarily reflecting proceeds from long-term borrowings of RMB55,075 million, net proceeds from issuance of notes payable of RMB40,202 million and proceeds from short-term borrowings of RMB18,375 million, partially offset by repayments of long-term borrowings of RMB55,168 million, repayments of short-term borrowings of RMB22,058 million, repayments of notes payable of RMB13,465 million and dividends paid to our shareholders and the non-controlling interests of RMB9,453 million, and interest paid of RMB7,047 million.

Net cash generated from financing activities for the year ended 31 December 2018 was RMB30,887 million, primarily reflecting net proceeds from issuance of notes payable of RMB32,547 million, proceeds from short-term borrowings of RMB26,463 million, proceeds from issuance of additional equity of non-wholly owned subsidiaries of RMB7,238 million and proceeds from long-term borrowings of RMB7,237 million, partially offset by repayments of short-term borrowings of RMB23,545 million, dividends paid to our shareholders and the non-controlling interests of RMB7,396 million and repayments of notes payable of RMB4,666 million and interest paid of RMB4,493 million.

Net cash generated from financing activities for the year ended 31 December 2017 was RMB26,598 million, primarily reflecting proceeds from long-term borrowings of RMB33,517 million, proceeds from short-term borrowings of RMB16,676 million, and proceeds from issuance of additional equity of non-wholly owned subsidiaries of RMB6,466 million, partially offset by repayments of short-term borrowings of RMB12,450 million, dividends paid to our shareholders and the non-controlling interests of RMB5,998 million, repayments of long-term borrowings of RMB5,281 million and repayments of notes payable of RMB3,450 million.

### **Capital Expenditure**

Our capital expenditures consist of additions (excluding business combinations) to property, plant and equipment which primarily include computers and servers, construction in progress, investment properties, land use rights and intangible assets (excluding video and music content, game licences and other content), were RMB13,585 million, RMB23,941 million, RMB32,369 million, RMB4,506 million and RMB6,151 million (US\$869 million) for the years ended 31 December 2017, 2018 and 2019 and for the three months ended 31 March 2019 and 2020, respectively.

We believe that our existing cash and cash equivalents, cash flows from operations, term deposits will be sufficient to meet the anticipated cash needs for our operating activities and capital expenditures for at least the next 12 months.

### **INDEBTEDNESS**

Our total borrowings amounted to RMB97,790 million, RMB114,271 million, RMB126,952 million and RMB140,566 million (US\$19,852 million) as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively.

Our total notes payable amounted to RMB34,115 million, RMB65,018 million, RMB93,861 million and RMB85,734 million (US\$12,108 million) as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively. On 21 October 2014, we completed the issue of the April 2020 Notes. The April 2020 Notes bear an interest of 2.900% per annum from 21 October 2014, payable annually in arrears on 21 October of each year. The April 2020 Notes matured and were fully repaid on 21 April 2020. See “*Description of Other Material Indebtedness — April 2020 Notes*”. On 11 February 2015, we completed the issue of the 2025 Notes. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes will mature on 11 February 2025. See “*Description of Other Material Indebtedness — 2025 Notes*”. On 15 July 2015, we completed the issue of the 2035 Notes. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes will mature on 15 July 2035. See “*Description of Other Material Indebtedness — 2035 Notes*”. On 19 January 2018, we completed the issue of the 2023 Notes. The 2023 Notes bear an interest of 2.985% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes will mature on 19 January 2023. See “*Description of Other Material Indebtedness — 2023 Notes*”. On 19 January 2018, we completed the issue of the 2023 Floating Rate Notes. The 2023 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.605% per annum from 19 January 2018, payable quarterly in arrears on 19 January, 19 April, 19 July and 19 October of each year. The 2023 Floating Rate Notes will mature on 19 January 2023. See “*Description of Other Material Indebtedness — 2023 Floating Rate Notes*”. On 19 January 2018, we completed the issue of the 2028 Notes. The 2028 Notes bear an interest of 3.595% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes will mature on 19 January 2028. See “*Description of Other Material Indebtedness — 2028 Notes*”. On 19 January 2018, we completed the issue of the 2038 Notes. The 2038 Notes bear an interest of 3.925% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes will mature on 19 January 2038. See “*Description of Other Material Indebtedness — 2038 Notes*”. On 11 April 2019, we completed the issue of the 2024 Notes. The 2024 Notes bear an interest of 3.280% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2024 Notes will mature on 11 April 2024. See



“Description of Other Material Indebtedness — 2024 Notes”. On 11 April 2019, we completed the issue of the 2024 Floating Rate Notes. The 2024 Notes bear an interest of 3-month USD LIBOR + 0.910% per annum from 11 April 2019, payable quarterly in arrears on 11 January, 11 April, 11 July and 11 October of each year. The 2024 Floating Rate Notes will mature on 11 April 2024. See “Description of Other Material Indebtedness — 2024 Floating Rate Notes”. On 11 April 2019, we completed the issue of the 2026 Notes. The 2026 Notes bear an interest of 3.575% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2026 Notes will mature on 11 April 2026. See “Description of Other Material Indebtedness — 2026 Notes”. On 11 April 2019, we completed the issue of the 2029 Notes. The 2029 Notes bear an interest of 3.975% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2029 Notes will mature on 11 April 2029. See “Description of Other Material Indebtedness — 2029 Notes”. On 11 April 2019, we completed the issue of the 2049 Notes. The 2049 Notes bear an interest of 4.525% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2049 Notes will mature on 11 April 2049. See “Description of Other Material Indebtedness — 2049 Notes”.

The following table sets forth our debt as at the dates indicated:

	As at 31 December			As at 31 March	
	2017	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	(Unaudited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
<b>Current:</b>					
USD bank borrowings, unsecured <sup>(1)</sup> .....	1,307	16,403	6,627	4,889	690
HKD bank borrowings, unsecured <sup>(1)</sup> .....	14,293	3,368	9,298	5,618	793
RMB bank borrowings, unsecured <sup>(1)</sup> .....	–	628	902	3,976	562
RMB bank borrowings, secured <sup>(1)</sup> .....	–	–	201	190	27
Current portion of long-term USD bank borrowings, unsecured <sup>(2)</sup> .....	66	5,628	140	142	20
Current portion of long-term RMB bank borrowings,					
- unsecured <sup>(2)</sup> .....	30	332	4,633	714	101
- secured <sup>(2)</sup> .....	–	475	–	–	–
Current portion of long-term HKD bank borrowings, unsecured <sup>(2)</sup> .....	–	–	894	912	129
	<u>15,696</u>	<u>26,834</u>	<u>22,695</u>	<u>16,441</u>	<u>2,322</u>
<b>Non-Current:</b>					
Non-current portion of long-term USD bank borrowings, unsecured <sup>(2)</sup> .....	76,326	70,938	88,354	112,759	15,924
Non-current portion of long-term EUR bank borrowings, unsecured <sup>(2)</sup> .....	–	–	1,172	1,172	166
Non-current portion of long-term RMB bank borrowings,					
- unsecured <sup>(2)</sup> .....	4,459	11,189	10,196	10,194	1,440
- secured <sup>(2)</sup> .....	475	–	–	–	–
Non-current portion of long-term HKD bank borrowings, unsecured <sup>(2)</sup> .....	834	5,310	4,535	–	–
	<u>82,094</u>	<u>87,437</u>	<u>104,257</u>	<u>124,125</u>	<u>17,530</u>
<b>Total borrowings</b> .....	<b>97,790</b>	<b>114,271</b>	<b>126,952</b>	<b>140,566</b>	<b>19,852</b>



	As at 31 December			As at 31 March	
	2017	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	(Unaudited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
<b>Current:</b>					
Notes payable <sup>(3)</sup> .....	4,752	13,720	10,534	1,094	155
<b>Non-current:</b>					
Notes payable <sup>(3)</sup> .....	29,363	51,298	83,327	84,640	11,953
<b>Total notes payable</b> .....	<b>34,115</b>	<b>65,018</b>	<b>93,861</b>	<b>85,734</b>	<b>12,108</b>
<b>Total</b> .....	<b>131,905</b>	<b>179,289</b>	<b>220,813</b>	<b>226,300</b>	<b>31,960</b>

*Note:*

- (1) The aggregate principal amounts of short-term USD, HKD and RMB bank borrowings as at 31 March 2020 were US\$690 million, HK\$6,160 million and RMB4,166 million, respectively. Applicable interest rates are at LIBOR plus 0.50% or fixed interest rates of 2.02% to 2.04% for USD bank borrowings, HIBOR plus 0.50% for HKD bank borrowings and fixed interest rates of 3.55% to 5.22% for RMB bank borrowings per annum.
- (2) The aggregate principal amounts of long-term USD, EUR, HKD and RMB bank borrowings as at 31 March 2020 were US\$15,935 million, EUR150 million, HK\$1,000 million and RMB10,908 million, respectively. Applicable interest rates are at LIBOR/HIBOR plus 0.70% to 1.27% for USD and HKD bank borrowings, a fixed interest rate of 0.52% for EUR bank borrowings and fixed interest rates of 4.18% to 5.70% for RMB bank borrowings per annum.
- (3) On 5 September 2012, we issued the 2018 Notes in an aggregate principal amount of US\$600 million. The 2018 Notes matured and were fully paid on 5 March 2018. On 29 April 2014, we issued the 2017 Notes in an aggregate principal amount of US\$500 million that matured and were fully paid on 2 May 2017. On 29 April 2014, we issued the 2019 Notes in an aggregate principal amount of US\$2,000 million that matured and were fully paid on 2 May 2019. On 16 May 2014, we issued the January 2020 Notes in an aggregate principal amount of HK\$2,000 million that matured and were fully paid on 10 January 2020. On 21 October 2014, we completed the issue of the April 2020 Notes in an aggregate principal amount of HK\$1,200 million that matured and were fully paid on 21 April 2020. On 11 February 2015, we completed the issue of the February 2020 Notes in an aggregate principal amount of US\$1,100 million that matured and were fully paid on 11 February 2020. On 11 February 2015, we completed the issue of the 2025 Notes in an aggregate principal amount of US\$900 million that will mature on 11 February 2025. The 2025 Notes bear an interest of 3.800% per annum from 11 February 2015, payable semi-annually in arrears on 11 February and 11 August of each year. The 2025 Notes were issued at 99.605% of the aggregate principal amount. On 15 July 2015, we completed the issue of the 2035 Notes in an aggregate principal amount of US\$100 million that will mature on 15 July 2035. The 2035 Notes bear an interest of 4.700% per annum from 15 July 2015, payable semi-annually in arrears on 15 January and 15 July of each year. The 2035 Notes were issued at 99.359% of the aggregate principal amount. On 24 September 2015, we issued the September 2018 Notes in an aggregate principal amount of HK\$1,000 million. The September 2018 Notes matured and were fully paid on 24 September 2018. On 19 January 2018, we completed the issue of the 2023 Notes in an aggregate amount of US\$1,000 million that will mature on 19 January 2023. The 2023 Notes bear an interest of 2.985% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2023 Notes were issued at 99.986% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2023 Floating Rate Notes in an aggregate amount of US\$500 million that will mature on 19 January 2023. The 2023 Floating Rate Notes bear an interest of 3-month USD LIBOR + 0.605% per annum from 19 January 2018, payable quarterly in arrears on 19 January, 19 April, 19 July and 19 October of each year. The 2023 Floating Rate Notes were issued at 100.0% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2028 Notes in an aggregate amount of US\$2,500 million that will mature on 19 January 2028. The 2028 Notes bear an interest of 3.595% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2028 Notes were issued at 99.975% of the aggregate principal amount. On 19 January 2018, we completed the issue of the 2038 Notes in an aggregate amount of US\$1,000 million that will mature on 19 January 2038. The 2038 Notes bear an interest of 3.925% per annum from 19 January 2018, payable semi-annually in arrears on 19 January and 19 July of each year. The 2038 Notes were issued at 99.959% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2024 Notes in an aggregate amount of US\$1,250 million that will mature on 11 April 2024. The 2024 Notes bear an interest of 3.280% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2024 Notes were issued at 99.991% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2024 Floating Rate Notes in an aggregate amount of US\$750 million that will mature on 11 April 2024. The 2024 Notes bear an interest of 3-month USD LIBOR + 0.910% per annum from 11 April 2019, payable quarterly in arrears on 11 January, 11 April, 11 July and 11 October of each year. The 2024 Notes were issued at 100% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2026 Notes in an aggregate amount of US\$500 million that will mature on 11 April 2026. The 2026 Notes bear

an interest of 3.575% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2026 Notes were issued at 99.994% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2029 Notes in an aggregate amount of US\$3,000 million that will mature on 11 April 2029. The 2029 Notes bear an interest of 3.975% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2029 Notes were issued at 99.967% of the aggregate principal amount. On 11 April 2019, we completed the issue of the 2049 Notes in an aggregate amount of US\$500 million that will mature on 11 April 2049. The 2049 Notes bear an interest of 4.525% per annum from 11 April 2019, payable semi-annually in arrears on 11 April and 11 October of each year. The 2049 Notes were issued at 99.967% of the aggregate principal amount.

## CONTRACTUAL OBLIGATIONS

### Capital Commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December			As at 31 March	
	2017	2018	2019	2020	
	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Audited) (RMB in millions)	(Unaudited) (RMB in millions)	(US\$ in millions)
<b>Contracted:</b>					
Construction/purchase of buildings and purchase of land use rights.....	273	2,219	4,180	4,034	570
Purchase of other property, plant and equipment.....	153	357	331	379	54
Capital investment in investees.....	3,027	8,763	18,206	15,261	2,154
<b>Total</b> .....	<b>3,453</b>	<b>11,339</b>	<b>22,717</b>	<b>19,674</b>	<b>2,778</b>

### Operating Lease Commitments<sup>(1)</sup>

The following table sets forth the future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings and server custody leases as at the dates indicated:

	As at 31 December	
	2017	2018
	(Audited) (RMB in millions)	(Audited) (RMB in millions)
<b>Contracted:</b>		
Not later than one year .....	1,027	2,632
Later than one year and not later than five years .....	1,056	7,398
Later than five years .....	970	2,264
<b>Total</b> .....	<b>3,053</b>	<b>12,294</b>

Note:

- (1) On adoption of IFRS 16 from 1 January 2019, we recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. As a result, we have no significant operating lease commitments after the adoption of IFRS 16.

## Other Commitments

The following table sets forth the future aggregate minimum payments under non-cancellable bandwidth, online game licensing and media contents agreements as at the dates indicated:

	As at 31 December			As at 31 March	
	2017	2018	2019	2020	
	(Audited)	(Audited)	(Audited)	(Unaudited)	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(US\$ in millions)
<b>Contracted:</b>					
Not later than one year.....	5,279	7,260	12,405	12,312	1,739
Later than one year and not later than five years.....	9,822	8,332	17,647	17,743	2,506
Later than five years.....	2,236	2,279	3,323	3,232	456
<b>Total.....</b>	<b>17,337</b>	<b>17,871</b>	<b>33,375</b>	<b>33,287</b>	<b>4,701</b>

## Off-balance Sheet Commitments and Arrangements

Except for the commitments set forth above, we had no material off-balance sheet transactions or arrangements as at 31 March 2020.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

### *Foreign exchange risk*

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HKD, USD and 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 our subsidiaries. Our functional currency and the functional currency for a majority of our overseas subsidiaries is USD whereas the functional currency of our subsidiaries which operate in the PRC is RMB.

We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and try to minimise these exposures by using foreign currency forwards.

During the year ended 31 December 2019, we entered into foreign currency forward contracts in relation to projected purchases that qualify as “high probable” forecast transactions and hence satisfy the requirements for hedge accounting. Under our policy the critical terms of the forwards must align with the hedged items.

We only designate the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted, where material.

The changes in the forward element of the foreign currency forwards that relate to hedged items are deferred in the costs of hedging reserve. The effects of the foreign currency related hedging instruments are not material to our consolidated financial statements.

### ***Price risk***

We are exposed to equity price risk mainly arising from investments held by us that are classified either as FVPL or FVOCI. To manage this price risk arising from the investments, we diversify our investment portfolio. The investments are made either for strategic purposes, or for the purpose of achieving investment yield and balancing our liquidity level simultaneously. Each investment is managed by senior management on a case by case basis.

### ***Interest rate risk***

Our income and operating cash flows are substantially independent from changes in market interest rates and we have 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.

Our exposure to changes in interest rates is also attributable to our borrowings and notes payable, which represent a substantial portion of our debts. Borrowings and notes payable carried at floating rates expose us to cash flow interest-rate risk whereas those carried at fixed rates expose us to fair value interest-rate risk.

We regularly monitor our interest rate risk to identify if there are any undue exposures to significant interest rate movements and manages our cash flow interest rate risk by using interest rate swaps, whenever considered necessary.

During the year ended 31 December 2019, we entered into certain interest rate swap contracts to hedge our exposure arising from our borrowings carried at floating rates. Under these interest rate swap contracts, we agreed with the counterparties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These interest rate swap contracts had the economic effect of converting borrowings from floating rates to fixed rates and were qualified for hedge accounting.

### ***Credit risk***

We are exposed to credit risk in relation to our cash and deposits placed with banks and financial institutions, accounts receivable, other receivables, as well as short-term investments measured at amortised cost, at FVOCI and at FVPL. The carrying amount of each class of these financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

The majority of the balances of accounts receivable are due from advertising customers and agencies, content production related customers, FinTech and cloud customers and third party platform providers. To manage the risk arising from accounts receivable, we have policies in place to ensure that revenues of credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of the counterparties. The credit periods granted to these customers are 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. We have a large number of customers and there is no concentration of credit risk.

Other receivables are mainly comprised of loans to investees and investees' shareholders, rental deposits and other receivables. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

We consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, we compare risk of a default occurring on the assets as at year end with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counterparty; and
- significant changes in the expected performance and behavior of the counterparty, including changes in the payment status of the counterparty.

i. Credit risk of cash and deposits and short-term investments

To manage this risk, we only make transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit loss is close to zero.

ii. Credit risk of accounts receivable

We apply the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. In view of the sound financial position and collection history of receivables due from these counterparties and insignificant risk of default, to measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of revenue over 12 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as the GDP of the countries in which it sells its goods and services) affecting the ability of the customers to settle the receivables.

A default on accounts receivable is when the counterparty fails to make contractual payments within 90 days of when they fall due. Accounts receivable are written off, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan within us, and a failure to make contractual payments for a period of greater than 3 years past due.

Impairment losses on accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same item.

iii. Credit risk of other receivables

Our management considers the credit risk of other receivables is insignificant when they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

### *Liquidity risk*

We aim to maintain sufficient cash and cash equivalents and readily marketable securities, which are classified as FVPL. Due to the dynamic nature of the underlying businesses, we maintain flexibility in funding by maintaining adequate balances of such.