

OPERATING INFORMATION

	As at 31 March 2021	As at 31 March 2020 <small>(in millions, unless specified)</small>	Year- on-year change	As at 31 December 2020	Quarter- on-quarter change
Combined MAU of Weixin and WeChat	1,241.6	1,202.5	3.3%	1,225.0	1.4%
Mobile device MAU of QQ	606.4	693.5	-12.6%	594.9	1.9%
Fee-based VAS registered subscriptions	225.7	197.4	14.3%	219.5	2.8%

BUSINESS REVIEW AND OUTLOOK

During the quarter, we achieved notable growth for our business services as well as online advertising revenue streams, while stepping up our investment in areas including business services and enterprise software, high-production-value games, and short-form video. Our listed investment portfolio experienced meaningful value appreciation, while contributing mixed results to our associate income, with certain investees delivering wider associate losses due to their investments in new initiatives such as community group buying activities. Overall, we believe we sustained healthy operational and financial results during a period when the China Internet industry as a whole is undergoing a heavy investment phase. Here are some highlights of our key products and business lines for the quarter:

Weixin

Weixin Video Accounts continued to gain user and content creator traction as we build the content ecosystem. We have increased our efforts in attracting and incubating content creators by providing customised onboarding services and ongoing operational support. Mini Programs' ecosystem is thriving with deeper penetration among small and medium-sized businesses. Our low-code development platform enables smaller businesses to develop Mini Programs more cost-effectively. We provided more tools to assist system integrators and the number of active Mini Programs they served more than tripled year-on-year.

QQ and Digital Content

We are leveraging technology to better integrate social and content consumption experiences at QQ, such as seamless experiences between instant messaging and games. Users can team up with QQ friends to start a multi-player game battle with one click. For in-game friends who are not on QQ, users can communicate with them synchronously via Game Center. They can also stay up-to-date with game events via QQ Mini Programs. Looking forward, QQ's new leadership team will seek to upgrade the service's technology, operations and content, and better serve the social and entertainment needs of young users.

Our fee-based VAS subscriptions grew 14% year-on-year to 226 million. Video subscriptions increased 12% year-on-year to 125 million, benefitting from adaptation of certain IPs, such as The Land of Warriors, into animated and live action drama series. Our self-commissioned variety shows such as Chuang 2021 and Roast Season 5 attained popularity. Music subscriptions increased 43% year-on-year to 61 million, primarily driven by better content, effective marketing campaigns and an improved retention rate.

We are merging the Tencent Video and WeiShi teams to upgrade their algorithmic recommendations, bring integrated viewing experiences to users, and enrich short video clips adapted from our long form video library. We have announced leadership changes in TME, aiming to enhance the co-operation and synergies between our digital content services, as well as with our social communities.

Games

Our aggregate user engagement and user spending increased year-on-year despite the high base due to stay-at-home impact in the first quarter of 2020. We released Honour of Kings' biggest-ever update in January to improve its graphics and game experiences, and then launched appealing marketing campaigns with top-tier skins during the Chinese New Year, which drove the game's DAU and paying users to record highs in February. We reduced the application file size of PUBG Mobile and enhanced our local market operational capabilities, boosting PUBG Mobile's DAU in EMEA countries. League of Legends benefitted significantly from the release of bigger and better Lunar Revel content across PC and mobile devices, as well as across its core game mode and Teamfight Tactics.

We are also cultivating emerging genres beyond these large audience games. For example, our new titles Komori Life and The Walnut Diary ranked among China's top ten life simulation mobile games by DAU in April 2021. Our games pipeline covers a wide spectrum of genres, including Action, MOBA and Survival. For China, many of the new games are adapted from popular existing game and literature IPs. Internationally, we expect our substantial prior investments in best-in-class PC, console and mobile studios to begin contributing a range of genre-innovating games in the quarters to come.

Online Advertising

We enhanced the transaction capabilities of our advertising properties via linkage with Weixin Mini Programs and upgraded marketing solutions for key industries including games, retail and automobile-related verticals, delivering higher sales conversion and ROIs for advertisers. Advertisers' adoption of Mini Programs as landing pages increased substantially, demonstrating growing recognition of Weixin as a transaction-generating environment. Our mobile advertising network continued to benefit from increased video advertising inventories primarily within games, online reading and tool apps. For the rest of 2021, industry uncertainties include potential regulatory headwinds for K-12 education and potential delays to the release schedule of our video content.

FinTech

Our commercial payments volume benefitted from rising adoption of mobile payment in China due to consumption growth and an expanding digital economy. As people travelled less and consumed more during the Chinese New Year holiday, offline payment transactions increased sequentially, particularly in retail and dining services.

Weixin Pay has been assisting small and medium-sized merchants in China to grow and digitalise their businesses. We are committing significant subsidies, resources and services to small and medium-sized merchants, to further reduce their operating costs and enhance their operational efficiency.

Cloud and Other Business Services

Leveraging our strengths in security, communication and CRM solutions, we expanded our PaaS and SaaS businesses during the quarter. To better position ourselves for the opportunities in China's nascent SaaS market, we have established our SaaS ecosystem program to nurture the growth of SaaS providers and facilitate digitalisation of enterprise clients. We launched our Enterprise App Connector with unified login accounts and data flow across different SaaS products, allowing SaaS providers to develop and deliver their products more efficiently, while facilitating better coordination of multiple SaaS solutions by enterprise clients.

Investments for the Future

We believe that we are still in the early stage of the global digital transformation. The advance of technology will present ample opportunities for our Consumer Internet and Industrial Internet activities. Consequently, we are proactively increasing our rate of investment in new opportunities by investing a portion of our incremental profits for 2021, which we believe will deliver high returns in the long run. Incremental investments will include the following areas – business services, games and short-form video content.

- *Business Services:* We will make further investments in areas such as headcount and infrastructure to support the rapid growth of our business. We will strengthen our productivity SaaS products and security software as well as partnerships with and investments in SaaS providers and Independent Software Vendors, supporting our clients' digital needs. Through enhancing our upsell and cross-sell capabilities in key verticals such as healthcare, retail, education and transportation, we will provide smart solutions for enterprises and consumer-facing products for users.

- *Games*: We are stepping up our investments in game development, and in particular focusing on large-scale and high-production-value games that can appeal to users globally. We are also investing further in new types of games serving more targeted audiences, building up IP franchises and developing them across media, and investing in advanced technologies for next generation game experiences such as cloud games.
- *Short-Form Video Content*: We are now incubating the content ecosystem for Video Accounts which connect users with real-life content and bridge high-quality content creators with their customers. We will provide production and monetisation tools to content creators, optimise social-driven recommendation, enrich knowledge-based content as well as add servers and bandwidth to support Video Accounts' solid growth. We are strengthening the synergies between our long-form and short-form video services. Through the merger of Tencent Video and WeiShi, we will empower long-form video leveraging our short-form capabilities. We will escalate self-commissioned production to further expand our IP content library, and provide video clips that can be adapted by our creator network.

As a technology company serving a broad base of users and enterprises, we recognise our social responsibility and the opportunities for us to create significant social value through innovations. Consequently, we integrated our Corporate Social Responsibility and charitable activities into a new Sustainable Social Value Organisation. We will invest an initial capital of RMB50 billion, to be funded by our investment gains, in areas including basic science, education innovation, rural revitalisation, carbon neutrality, food/energy/water provision, assisting with public emergencies, technology for senior citizens and public welfare. This upgrade aims to implement our mission of “Tech for Good” and marks a new phase of development for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2021 Compared to First Quarter of 2020

The following table sets forth the comparative figures for the first quarter of 2021 and the first quarter of 2020:

	Unaudited	
	Three months ended	
	31 March	31 March
	2021	2020
	(RMB in millions)	
Revenues	135,303	108,065
Cost of revenues	(72,668)	(55,271)
Gross profit	62,635	52,794
Interest income	1,614	1,636
Other gains, net	19,521	4,037
Selling and marketing expenses	(8,530)	(7,049)
General and administrative expenses	(18,967)	(14,158)
Operating profit	56,273	37,260
Finance costs, net	(1,367)	(1,684)
Share of profit/(loss) of associates and joint ventures	1,348	(281)
Profit before income tax	56,254	35,295
Income tax expense	(7,246)	(5,892)
Profit for the period	49,008	29,403
Attributable to:		
Equity holders of the Company	47,767	28,896
Non-controlling interests	1,241	507
	49,008	29,403
Non-IFRS profit attributable to equity holders of the Company	33,118	27,079

Revenues. Revenues increased by 25% to RMB135.3 billion for the first quarter of 2021 on a year-on-year basis. The following table sets forth our revenues by line of business for the first quarter of 2021 and the first quarter of 2020:

	Unaudited			
	Three months ended			
	31 March 2021		31 March 2020	
	Amount	% of total revenues	Amount	% of total revenues
	(RMB in millions, unless specified)			
VAS	72,443	54%	62,429	58%
Online Advertising	21,820	16%	17,713	16%
FinTech and Business Services	39,028	29%	26,475	25%
Others	2,012	1%	1,448	1%
Total revenues	<u>135,303</u>	<u>100%</u>	<u>108,065</u>	<u>100%</u>

- Revenues from VAS increased by 16% to RMB72.4 billion for the first quarter of 2021 on a year-on-year basis. Games revenues grew by 17% to RMB43.6 billion, primarily due to revenue growth from our mobile games worldwide, including Honour of Kings, PUBG Mobile, and Peacekeeper Elite, as well as recently launched titles such as Moonlight Blade Mobile. Total mobile games revenues (including mobile games revenues attributable to our social networks business) were RMB41.5 billion and PC client games revenues were RMB11.9 billion for the first quarter of 2021. Social networks revenues increased by 15% to RMB28.8 billion, due to moderate growth from digital content subscriptions, as well as from in-game virtual item sales.
- Revenues from Online Advertising increased by 23% to RMB21.8 billion for the first quarter of 2021 on a year-on-year basis, reflecting higher demand from categories such as eCommerce platforms, education and fast-moving consumer goods, as well as consolidation of Bitauto’s advertising revenue. Social and others advertising revenues grew by 27% to RMB18.5 billion as we responded to increased advertiser demand for Weixin Moments and our mobile advertising network by offering more inventories. Media advertising revenues increased by 7% to RMB3.3 billion mainly due to higher advertising revenues from our music streaming apps.

- Revenues from FinTech and Business Services increased by 47% to RMB39 billion for the first quarter of 2021 on a year-on-year basis. FinTech Services revenue growth partially reflected the stay-at-home impact in the first quarter of 2020 as well as a secular trend toward mobile payment usage. Business Services revenues increased year-on-year at a faster rate than in prior quarter, mainly due to resumed project deployment and rising demand from enterprise software and online video customers, as well as consolidation of Bitauto's Business Services revenue since the fourth quarter of 2020.

Cost of revenues. Cost of revenues increased by 31% to RMB72.7 billion for the first quarter of 2021 on a year-on-year basis, reflecting increased content costs, channel and distribution costs, as well as transaction costs of FinTech services. As a percentage of revenues, cost of revenues increased to 54% for the first quarter of 2021 from 51% for the first quarter of 2020, due to factors including a revenue mix shift toward generally lower gross margin activities and more content releases. The following table sets forth our cost of revenues by line of business for the first quarter of 2021 and the first quarter of 2020:

	Unaudited			
	Three months ended			
	31 March 2021		31 March 2020	
	Amount	% of segment revenues	Amount	% of segment revenues
	(RMB in millions, unless specified)			
VAS	32,533	45%	25,577	41%
Online Advertising	11,986	55%	9,003	51%
FinTech and Business Services	26,430	68%	19,093	72%
Others	1,719	85%	1,598	110%
	<u>72,668</u>		<u>55,271</u>	
Total cost of revenues				

- Cost of revenues for VAS increased by 27% to RMB32.5 billion for the first quarter of 2021 on a year-on-year basis, primarily due to the increase in content costs for live broadcast services and video subscription services, and channel costs for mobile games.
- Cost of revenues for Online Advertising increased by 33% to RMB12 billion for the first quarter of 2021 on a year-on-year basis, mainly driven by increased traffic acquisition costs associated with revenue growth from our mobile advertising network, and increased content costs for video advertising resulting from more content releases.

- Cost of revenues for FinTech and Business Services increased by 38% to RMB26.4 billion for the first quarter of 2021 on a year-on-year basis, primarily due to bank charges for payment services and project deployment costs for Cloud Services.

Other gains, net. We recorded net other gains of RMB19.5 billion for the first quarter of 2021, which were mainly non-IFRS adjustment items such as net fair value gains reflecting increased valuations of investee companies, as well as net gains on deemed disposals and disposals of certain investee companies.

Selling and marketing expenses. Selling and marketing expenses increased by 21% to RMB8.5 billion for the first quarter of 2021 on a year-on-year basis. The increase was mainly due to higher marketing spending on business services and games, as well as higher staff costs, including those associated with the consolidation of newly acquired subsidiaries such as Bitauto. As a percentage of revenues, selling and marketing expenses were about 6% for the first quarter of 2021, broadly stable compared to the same quarter of last year.

General and administrative expenses. General and administrative expenses increased by 34% to RMB19 billion for the first quarter of 2021 on a year-on-year basis, reflecting higher R&D expenses and staff costs. As a percentage of revenues, general and administrative expenses increased to 14% for the first quarter of 2021 from 13% for the first quarter of 2020.

Finance costs, net. Net finance costs decreased by 19% to RMB1.4 billion for the first quarter of 2021 on a year-on-year basis due to lower interest expenses as a result of reduced average interest rates.

Share of profit/loss of associates and joint ventures. We recorded share of profit of associates and joint ventures of RMB1.3 billion for the first quarter of 2021, compared to share of losses of RMB0.3 billion for the first quarter of 2020. The change was mainly driven by non-IFRS adjustment items including non-recurring fair value gains on investment, and to a lesser extent, improved financial performance of certain associates.

Income tax expense. Income tax expense increased by 23% to RMB7.2 billion for the first quarter of 2021 on a year-on-year basis.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 65% to RMB47.8 billion for the first quarter of 2021 on a year-on-year basis. Non-IFRS profit attributable to equity holders of the Company increased by 22% to RMB33.1 billion for the first quarter of 2021.

First Quarter of 2021 Compared to Fourth Quarter of 2020

The following table sets forth the comparative figures for the first quarter of 2021 and the fourth quarter of 2020:

	Unaudited	
	Three months ended	
	31 March	31 December
	2021	2020
	(RMB in millions)	
Revenues	135,303	133,669
Cost of revenues	(72,668)	(74,788)
Gross profit	62,635	58,881
Interest income	1,614	1,708
Other gains, net	19,521	32,936
Selling and marketing expenses	(8,530)	(10,033)
General and administrative expenses	(18,967)	(19,779)
Operating profit	56,273	63,713
Finance costs, net	(1,367)	(2,253)
Share of profit of associates and joint ventures	1,348	1,618
Profit before income tax	56,254	63,078
Income tax expense	(7,246)	(3,709)
Profit for the period	49,008	59,369
Attributable to:		
Equity holders of the Company	47,767	59,302
Non-controlling interests	1,241	67
	49,008	59,369
Non-IFRS profit attributable to equity holders of the Company	33,118	33,207

Revenues. Revenues increased by 1% to RMB135.3 billion for the first quarter of 2021 on a quarter-on-quarter basis.

- Revenues from VAS increased by 8% to RMB72.4 billion for the first quarter of 2021. Games revenues grew by 12% to RMB43.6 billion. The increase was mainly driven by revenue contributions from our mobile games including Honour of Kings, CrossFire Mobile, and recently launched titles such as Call of Duty Mobile, as well as revenue growth from our PC client games. Social networks revenues increased by 3% to RMB28.8 billion. The increase mainly reflected revenue growth from in-game virtual item sales and video subscription services, partly offset by a seasonal revenue decline in live broadcast services.
- Revenues from Online Advertising decreased by 11% to RMB21.8 billion for the first quarter of 2021. Social and others advertising revenues decreased by 9% to RMB18.5 billion, mainly reflecting the low advertising season for the eCommerce and education sectors. Media advertising revenues decreased by 22% to RMB3.3 billion due to seasonally lower advertising revenues contributed by our video and news apps.
- Revenues from FinTech and Business Services were RMB39 billion for the first quarter of 2021, broadly stable compared to the fourth quarter of 2020.

Cost of revenues. Cost of revenues decreased by 3% to RMB72.7 billion for the first quarter of 2021 on a quarter-on-quarter basis, mainly driven by better operational efficiency at Business Services and lower cost of revenues for Others segment. As a percentage of revenues, cost of revenues decreased to 54% for the first quarter of 2021 from 56% for the fourth quarter of 2020.

- Cost of revenues for VAS were RMB32.5 billion for the first quarter of 2021, broadly stable compared to the fourth quarter of 2020.
- Cost of revenues for Online Advertising increased by 4% to RMB12 billion for the first quarter of 2021 due to increased video content costs resulting from more airing of sports events and drama series.
- Cost of revenues for FinTech and Business Services decreased by 4% to RMB26.4 billion for the first quarter of 2021 mainly due to lower Cloud Services project deployment costs.

Selling and marketing expenses. Selling and marketing expenses decreased by 15% to RMB8.5 billion for the first quarter of 2021 on a quarter-on-quarter basis due to seasonality.

General and administrative expenses. General and administrative expenses decreased by 4% to RMB19 billion for the first quarter of 2021 on a quarter-on-quarter basis. The decrease mainly reflected lower office expenses, as well as fewer travel and entertainment activities versus the previous quarter.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company decreased by 19% to RMB47.8 billion for the first quarter of 2021 on a quarter-on-quarter basis. Non-IFRS profit attributable to equity holders of the Company was RMB33.1 billion for the first quarter of 2021, broadly stable compared to the fourth quarter of 2020.

Other Financial Information

	Unaudited		
	Three months ended		
	31 March	31 December	31 March
	2021	2020	2020
	(RMB in millions, unless specified)		
EBITDA (a)	49,355	42,872	42,228
Adjusted EBITDA (a)	52,927	46,533	45,190
Adjusted EBITDA margin (b)	39%	35%	42%
Interest and related expenses	1,726	1,766	2,006
Net cash/(debt) (c)	5,581	11,063	(5,716)
Capital expenditures (d)	7,734	9,659	6,151

Note:

- (a) EBITDA is calculated as operating profit minus interest income and other gains/losses, net, and adding back depreciation of property, plant and equipment, investment properties as well as right-of-use assets, and amortisation of intangible assets and land use rights. Adjusted EBITDA is calculated as EBITDA plus equity-settled share-based compensation expenses.
- (b) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.
- (c) Net cash/(debt) represents period end balance and is calculated as cash and cash equivalents, plus term deposits and others, minus borrowings and notes payable.
- (d) Capital expenditures consist of additions (excluding business combinations) to property, plant and equipment, construction in progress, investment properties, land use rights and intangible assets (excluding video and music content, game licences and other content).

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

	Unaudited		
	Three months ended		
	31 March	31 December	31 March
	2021	2020	2020
	(RMB in millions, unless specified)		
Operating profit	56,273	63,713	37,260
Adjustments:			
Interest income	(1,614)	(1,708)	(1,636)
Other gains, net	(19,521)	(32,936)	(4,037)
Depreciation of property, plant and equipment and investment properties	5,303	4,939	3,889
Depreciation of right-of-use assets	1,055	1,036	874
Amortisation of intangible assets and land use rights	7,859	7,828	5,878
EBITDA	49,355	42,872	42,228
Equity-settled share-based compensation	3,572	3,661	2,962
Adjusted EBITDA	52,927	46,533	45,190

Non-IFRS Financial Measures

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

The Company's management believes that the non-IFRS financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of M&A transactions. In addition, non-IFRS adjustments include relevant non-IFRS adjustments for the Group's major associates based on available published financials of the relevant major associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the first quarter of 2021 and 2020, the fourth quarter of 2020 to the nearest measures prepared in accordance with IFRS:

Unaudited three months ended 31 March 2021							
	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	Income tax effects (e)	
(RMB in millions, unless specified)							
Operating profit	56,273	3,704	(18,331)	1,062	50	–	42,758
Profit for the period	49,008	5,036	(22,231)	2,699	178	(187)	34,503
Profit attributable to equity holders	47,767	4,855	(21,829)	2,352	178	(205)	33,118
EPS (RMB per share)							
– basic	5.020						3.481
– diluted	4.917						3.415
Operating margin	42%						32%
Net margin	36%						26%

Unaudited three months ended 31 December 2020							
	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	Income tax effects (e)	
(RMB in millions, unless specified)							
Operating profit	63,713	3,744	(34,652)	885	4,394	–	38,084
Profit for the period	59,369	4,896	(36,149)	2,260	4,407	(329)	34,454
Profit attributable to equity holders	59,302	4,735	(36,928)	1,926	4,407	(235)	33,207
EPS (RMB per share)							
– basic	6.240						3.494
– diluted	6.112						3.413
Operating margin	48%						28%
Net margin	44%						26%

Unaudited three months ended 31 March 2020

	Adjustments						Non-IFRS
	As reported	Share-based compensation (a)	Net (gains)/ losses from investee companies (b)	Amortisation of intangible assets (c)	Impairment provisions/ (reversals) (d)	Income tax effects (e)	
	(RMB in millions, unless specified)						
Operating profit	37,260	3,435	(5,272)	639	(487)	–	35,575
Profit for the period	29,403	4,198	(6,992)	1,572	(18)	(179)	27,984
Profit attributable to equity holders	28,896	3,957	(6,976)	1,338	(18)	(118)	27,079
EPS (RMB per share)							
– basic	3.049						2.858
– diluted	2.999						2.817
Operating margin	34%						33%
Net margin	27%						26%

Note:

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

Liquidity and Financial Resources

Our cash positions as at 31 March 2021 and 31 December 2020 were as follows:

	Unaudited 31 March 2021	Audited 31 December 2020
	(RMB in millions)	
Cash and cash equivalents	148,621	152,798
Term deposits and others	110,197	106,709
	258,818	259,507
Borrowings	(130,295)	(126,387)
Notes payable	(122,942)	(122,057)
Net cash	5,581	11,063
Fair value of our stakes in listed investee companies (excluding subsidiaries)	1,362,324	1,204,931

As at 31 March 2021, the Group had net cash of RMB5.6 billion, compared to net cash of RMB11.1 billion as at 31 December 2020. The sequential decrease was mainly due to net cash outflow for M&A activities, partly offset by free cash flow generation.

For the first quarter of 2021, the Group had free cash flow of RMB33.2 billion. This was a result of net cash flow generated from operating activities of RMB51 billion, offset by payments for capital expenditures of RMB9.1 billion, payments for media content of RMB7.6 billion, and payments for lease liabilities of RMB1.1 billion.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2021

		Unaudited	
		Three months ended 31 March	
		2021	2020
	Note	RMB'Million	RMB'Million
Revenues			
Value-added Services		72,443	62,429
Online Advertising		21,820	17,713
FinTech and Business Services		39,028	26,475
Others		2,012	1,448
		<u>135,303</u>	108,065
Cost of revenues	4	<u>(72,668)</u>	<u>(55,271)</u>
Gross profit		62,635	52,794
Interest income		1,614	1,636
Other gains, net	3	19,521	4,037
Selling and marketing expenses	4	(8,530)	(7,049)
General and administrative expenses	4	<u>(18,967)</u>	<u>(14,158)</u>
Operating profit		56,273	37,260
Finance costs, net		(1,367)	(1,684)
Share of profit/(loss) of associates and joint ventures, net		<u>1,348</u>	<u>(281)</u>
Profit before income tax		56,254	35,295
Income tax expense	5	<u>(7,246)</u>	<u>(5,892)</u>
Profit for the period		<u>49,008</u>	<u>29,403</u>
Attributable to:			
Equity holders of the Company		47,767	28,896
Non-controlling interests		<u>1,241</u>	<u>507</u>
		<u>49,008</u>	<u>29,403</u>
Earnings per share for profit attributable to equity holders of the Company (in RMB per share)			
– basic	6(a)	<u>5.020</u>	<u>3.049</u>
– diluted	6(b)	<u>4.917</u>	<u>2.999</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2021**

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
Profit for the period	<u>49,008</u>	<u>29,403</u>
Other comprehensive income, net of tax:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income/(loss) of associates and joint ventures	288	(30)
Transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures	(3)	–
Currency translation differences	(5,908)	1,315
Other fair value gains/(losses)	1,163	(1,357)
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Share of other comprehensive income of associates and joint ventures	381	–
Net gains/(losses) from changes in fair value of financial assets at fair value through other comprehensive income	18,483	(7,850)
Currency translation differences	207	–
Other fair value losses	–	(54)
	<u>14,611</u>	<u>(7,976)</u>
Total comprehensive income for the period	<u><u>63,619</u></u>	<u><u>21,427</u></u>
Attributable to:		
Equity holders of the Company	63,756	21,020
Non-controlling interests	(137)	407
	<u><u>63,619</u></u>	<u><u>21,427</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021**

		Unaudited 31 March 2021 RMB'Million	Audited 31 December 2020 RMB'Million
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		61,833	59,843
Land use rights		16,073	16,091
Right-of-use assets		12,904	12,929
Construction in progress		5,118	4,939
Investment properties		563	583
Intangible assets		156,772	159,437
Investments in associates	8	323,145	297,609
Investments in joint ventures		7,672	7,649
Financial assets at fair value through profit or loss	9	183,926	165,944
Financial assets at fair value through other comprehensive income	10	240,237	213,091
Prepayments, deposits and other assets		26,653	24,630
Other financial assets		510	4
Deferred income tax assets		24,052	21,348
Term deposits		33,219	31,681
		<u>1,092,677</u>	<u>1,015,778</u>
Current assets			
Inventories		816	814
Accounts receivable	11	51,676	44,981
Prepayments, deposits and other assets		49,182	40,321
Other financial assets		645	1,133
Financial assets at fair value through profit or loss	9	9,286	6,593
Term deposits		67,737	68,487
Restricted cash		2,493	2,520
Cash and cash equivalents		148,621	152,798
		<u>330,456</u>	<u>317,647</u>
Total assets		<u>1,423,133</u>	<u>1,333,425</u>

		Unaudited	Audited
		31 March	31 December
		2021	2020
	Note	RMB'Million	RMB'Million
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		–	–
Share premium		51,853	48,793
Shares held for share award schemes		(4,747)	(4,412)
Other reserves		124,487	121,139
Retained earnings		590,219	538,464
		761,812	703,984
Non-controlling interests		83,334	74,059
Total equity		845,146	778,043
LIABILITIES			
Non-current liabilities			
Borrowings	14	117,477	112,145
Notes payable	15	122,942	122,057
Long-term payables		10,895	9,910
Other financial liabilities		8,393	9,254
Deferred income tax liabilities		16,523	16,061
Lease liabilities		10,145	10,198
Deferred revenue		6,629	6,678
		293,004	286,303
Current liabilities			
Accounts payable	13	102,625	94,030
Other payables and accruals		43,065	54,308
Borrowings	14	12,818	14,242
Current income tax liabilities		16,369	12,134
Other tax liabilities		2,761	2,149
Other financial liabilities		4,844	5,567
Lease liabilities		3,891	3,822
Deferred revenue		98,610	82,827
		284,983	269,079
Total liabilities		577,987	555,382
Total equity and liabilities		1,423,133	1,333,425

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2021

	Unaudited							
	Attributable to equity holders of the Company						Non- controlling interests	Total equity
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million		
Balance at 1 January 2021	-	48,793	(4,412)	121,139	538,464	703,984	74,059	778,043
Comprehensive income								
Profit for the period	-	-	-	-	47,767	47,767	1,241	49,008
Other comprehensive income, net of tax:								
– share of other comprehensive income/(loss) of associates and joint ventures	-	-	-	679	-	679	(10)	669
– transfer of share of other comprehensive income to profit or loss upon disposal and deemed disposal of associates and joint ventures	-	-	-	(3)	-	(3)	-	(3)
– net gains/(losses) from changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	19,199	-	19,199	(716)	18,483
– currency translation differences	-	-	-	(4,996)	-	(4,996)	(705)	(5,701)
– other fair value gains, net	-	-	-	1,110	-	1,110	53	1,163
Total comprehensive income for the period	-	-	-	15,989	47,767	63,756	(137)	63,619
Transfer of gains on disposal of financial instruments to retained earnings	-	-	-	(4,024)	4,024	-	-	-
Share of other changes in net assets of associates and joint ventures	-	-	-	1,195	-	1,195	1	1,196
Transfer of share of other changes in net assets of associates and joint ventures to profit or loss upon disposal and deemed disposal	-	-	-	(1)	-	(1)	5	4
Transactions with equity holders								
Capital injection	-	-	-	-	-	-	130	130
Employee share option schemes:								
– value of employee services	-	396	-	13	-	409	14	423
– proceeds from shares issued	-	202	-	-	-	202	-	202
Employee share award schemes:								
– value of employee services	-	2,865	-	175	-	3,040	127	3,167
– shares withheld for share award schemes	-	-	(738)	-	-	(738)	-	(738)
– vesting of awarded shares	-	(403)	403	-	-	-	-	-
Tax benefit from share-based payments	-	-	-	104	-	104	-	104
Profit appropriations to statutory reserves	-	-	-	36	(36)	-	-	-
Dividends	-	-	-	-	-	-	(88)	(88)
Distributions from a non wholly-owned subsidiary	-	-	-	-	-	-	(1,401)	(1,401)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	256	256
Acquisition of additional equity interests in non wholly-owned subsidiaries	-	-	-	(181)	-	(181)	(226)	(407)
Dilution of interests in subsidiaries	-	-	-	156	-	156	359	515
Changes in put option liability in respect of non-controlling interests	-	-	-	174	-	174	52	226
Recognition of financial liabilities in respect of the put option from business combination	-	-	-	(105)	-	(105)	-	(105)
Transfer of equity interests of subsidiaries to non-controlling interests	-	-	-	(10,183)	-	(10,183)	10,183	-
Total transactions with equity holders at their capacity as equity holders for the period	-	3,060	(335)	(9,811)	(36)	(7,122)	9,406	2,284
Balance at 31 March 2021	-	51,853	(4,747)	124,487	590,219	761,812	83,334	845,146

Unaudited

	Attributable to equity holders of the Company							Total equity RMB'Million
	Share capital RMB'Million	Share premium RMB'Million	Shares held for share award schemes RMB'Million	Other reserves RMB'Million	Retained earnings RMB'Million	Total RMB'Million	Non- controlling interests RMB'Million	
Balance at 1 January 2020	–	35,271	(4,002)	16,786	384,651	432,706	56,118	488,824
Comprehensive income								
Profit for the period	–	–	–	–	28,896	28,896	507	29,403
Other comprehensive income, net of tax:								
– share of other comprehensive loss of associates and joint ventures	–	–	–	(31)	–	(31)	1	(30)
– net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	(7,423)	–	(7,423)	(427)	(7,850)
– currency translation differences	–	–	–	965	–	965	350	1,315
– other fair value losses, net	–	–	–	(1,387)	–	(1,387)	(24)	(1,411)
Total comprehensive income for the period	–	–	–	(7,876)	28,896	21,020	407	21,427
Transfer of gains on disposal and deemed disposal of financial assets at fair value through other comprehensive income to retained earnings	–	–	–	(268)	268	–	–	–
Share of other changes in net assets of associates and joint ventures	–	–	–	749	–	749	(5)	744
Transfer of share of other changes in net assets of associates to profit or loss upon deemed disposal of associates	–	–	–	(3)	–	(3)	–	(3)
Transactions with equity holders								
Employee share option schemes:								
– value of employee services	–	494	–	17	–	511	18	529
– proceeds from shares issued	–	127	–	–	–	127	–	127
Employee share award schemes:								
– value of employee services	–	2,293	–	84	–	2,377	69	2,446
– shares withheld for share award schemes	–	–	(64)	–	–	(64)	–	(64)
– vesting of awarded shares	–	(75)	75	–	–	–	–	–
Tax benefit from share-based payments	–	–	–	30	–	30	–	30
Profit appropriations to statutory reserves	–	–	–	(66)	66	–	–	–
Dividends	–	–	–	–	–	–	(296)	(296)
Acquisition of additional equity interests in non wholly-owned subsidiaries	–	–	–	(32)	–	(32)	(118)	(150)
Dilution of interests in subsidiaries	–	–	–	(76)	–	(76)	62	(14)
Transfer of equity interests of subsidiaries to non-controlling interests	–	577	118	(216)	–	479	(536)	(57)
Total transactions with equity holders at their capacity as equity holders for the period	–	3,416	129	(259)	66	3,352	(801)	2,551
Balance at 31 March 2020	–	38,687	(3,873)	9,129	413,881	457,824	55,719	513,543

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2021**

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
Net cash flows generated from operating activities	51,004	54,661
Net cash flows used in investing activities	(55,036)	(52,253)
Net cash flows used in financing activities	(487)	(761)
Net (decrease)/increase in cash and cash equivalents	(4,519)	1,647
Cash and cash equivalents at beginning of the period	152,798	132,991
Exchange gains on cash and cash equivalents	342	632
Cash and cash equivalents at end of the period	148,621	135,270

Note:

1 General information, basis of preparation and presentation

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

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

The condensed consolidated interim financial information comprises the consolidated statement of financial position as at 31 March 2021, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

The Interim Financial Information has been prepared in accordance with IAS 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2020, which have been prepared in accordance with IFRS, as set out in the 2020 annual report of the Company dated 24 March 2021 (the “2020 Financial Statements”).

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are generally consistent with those used in the 2020 Financial Statements in all material aspects, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of FVPL, FVOCI, certain other financial assets and liabilities, which are carried at fair values.

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

The following amendments to standards have been adopted by the Group for the financial year beginning on 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform – phase 2
---	---

The adoption of these amended standards does not have significant impact on the consolidated financial statements of the Group.

2 Segment information

The Group has the following reportable segments for the three months ended 31 March 2021 and 2020:

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

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

There were no material inter-segment sales during the three months ended 31 March 2021 and 2020. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated income statement.

The segment information provided to the chief operating decision-makers for the reportable segments for the three months ended 31 March 2021 and 2020 is as follows:

	Unaudited				
	Three months ended 31 March 2021				
			FinTech and		
	VAS	Online	Business	Others	Total
	RMB'Million	Advertising	Services	RMB'Million	RMB'Million
		RMB'Million	RMB'Million		
Segment revenues	<u>72,443</u>	<u>21,820</u>	<u>39,028</u>	<u>2,012</u>	<u>135,303</u>
Gross profit	<u>39,910</u>	<u>9,834</u>	<u>12,598</u>	<u>293</u>	<u>62,635</u>
Cost of revenues					
Depreciation	1,414	1,225	2,634	23	5,296
Amortisation	<u>4,685</u>	<u>1,892</u>	<u>13</u>	<u>607</u>	<u>7,197</u>

	Unaudited				
	Three months ended 31 March 2020				
	VAS	FinTech and		Others	Total
		Online	Business		
RMB'Million	Advertising	Services	RMB'Million	RMB'Million	
Segment revenues	<u>62,429</u>	<u>17,713</u>	<u>26,475</u>	<u>1,448</u>	<u>108,065</u>
Gross profit/(loss)	<u>36,852</u>	<u>8,710</u>	<u>7,382</u>	<u>(150)</u>	<u>52,794</u>
Cost of revenues					
Depreciation	1,055	748	2,015	26	3,844
Amortisation	<u>3,478</u>	<u>1,450</u>	<u>–</u>	<u>486</u>	<u>5,414</u>

3 Other gains, net

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
Net gains on disposals and deemed disposals of investee companies (a)	3,484	3,647
Net fair value gains on FVPL ((b) and Note 9)	14,740	1,317
Impairment (provision)/reversal for investee companies, goodwill and other intangible assets arising from acquisitions	(50)	487
Subsidies and tax rebates	2,530	2,115
Net fair value gains on other financial instruments	109	308
Donations	(1,600)	(2,600)
Dividends income	150	408
Others	158	(1,645)
	<u>19,521</u>	<u>4,037</u>

Note:

- (a) The disposal and deemed disposal gains of approximately RMB3,484 million recognised during the three months ended 31 March 2021 mainly comprised the following:
- net gains of approximately RMB1,904 million (three months ended 31 March 2020: Nil) on dilution of the Group's equity interests in certain associates due to new equity interests being issued by these associates (Note 8). These investee companies are principally engaged in online video-sharing platform, eCommerce and Internet-related business; and

- aggregate net gains of approximately RMB1,580 million (three months ended 31 March 2020: RMB3,647 million) on disposals, partial disposals or deemed disposals of various investments of the Group.
- (b) During the three months ended 31 March 2021, the net fair value gains on FVPL comprised net gains of RMB14,738 million as a result of increases in valuations of certain FVPL, and RMB2 million associated with treasury investments.

4 Expenses by nature

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
Transaction costs (a)	31,653	21,733
Employee benefits expenses (b)	20,401	15,143
Content costs (excluding amortisation of intangible assets)	14,819	12,262
Amortisation of intangible assets (c)	7,843	5,878
Promotion and advertising expenses	6,481	5,549
Depreciation of property, plant and equipment, investment properties and right-of-use assets	6,358	4,763
Bandwidth and server custody fees (excluding depreciation of right-of-use assets)	6,215	5,121

Note:

- (a) Transaction costs primarily consist of bank handling fees, channel and distribution costs.
- (b) During the three months ended 31 March 2021, the Group had incurred expenses for the purpose of R&D of approximately RMB11,301 million (three months ended 31 March 2020: approximately RMB8,005 million), which mainly comprised employee benefits expenses of approximately RMB9,442 million (three months ended 31 March 2020: approximately RMB6,800 million).

During the three months ended 31 March 2021, employee benefits expenses included the share-based compensation expenses of approximately RMB3,704 million (three months ended 31 March 2020: approximately RMB3,435 million).

No significant development expenses had been capitalised for the three months ended 31 March 2021 and 2020.

- (c) Amortisation charges of intangible assets is mainly in respect of media content including video and music content, game licenses, and other content. During the three months ended 31 March 2021, amortisation of media content was approximately RMB7,155 million (three months ended 31 March 2020: approximately RMB5,408 million).

During the three months ended 31 March 2021, amortisation of intangible assets included the amortisation of intangible assets resulting from business combinations of approximately RMB1,062 million (three months ended 31 March 2020: approximately RMB639 million).

5 Income tax expense

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

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

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the three months ended 31 March 2021 and 2020.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the three months ended 31 March 2021 and 2020.

(c) PRC CIT

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the Mainland of China for the three months ended 31 March 2021 and 2020. The general PRC CIT rate is 25% for the three months ended 31 March 2021 and 2020.

Certain subsidiaries of the Group in the Mainland of 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 three months ended 31 March 2021 and 2020. Moreover, according to announcement and circular issued by relevant government authorities, certain subsidiaries which were qualified as national key software enterprises were subject to a preferential corporate income tax rate of 10%.

In addition, 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 to some subsidiaries located in certain areas of the Mainland of China upon fulfillment of certain requirements of the respective local governments.

(d) Corporate income tax in other jurisdictions

Income tax on profit arising from other jurisdictions, including the United States, Europe, East Asia and South America, had been calculated on the estimated assessable profit for the three months ended 31 March 2021 and 2020 at the respective rates prevailing in the relevant jurisdictions, ranging from 12.5% to 35%.

(e) **Withholding tax**

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the Mainland of 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 the Mainland of China and Hong Kong, the relevant withholding tax rate applicable to such foreign investor will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

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

The income tax expense of the Group for the three months ended 31 March 2021 and 2020 are analysed as follows:

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
Current income tax	8,379	7,330
Deferred income tax	(1,133)	(1,438)
	<u>7,246</u>	<u>5,892</u>

6 Earnings per share

(a) **Basic**

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

	Unaudited	
	Three months ended 31 March	
	2021	2020
Profit attributable to equity holders of the Company (RMB'Million)	<u>47,767</u>	<u>28,896</u>
Weighted average number of ordinary shares in issue (million shares)	<u>9,514</u>	<u>9,476</u>
Basic EPS (RMB per share)	<u>5.020</u>	<u>3.049</u>

(b) Diluted

The share options and awarded shares granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS).

In addition, the profit attributable to equity holders (numerator) has been adjusted by the effect of the share options and restricted shares granted by the Company's non wholly-owned subsidiaries and associates, excluding those which have anti-dilutive effect to the Group's diluted EPS.

	Unaudited	
	Three months ended 31 March	
	2021	2020
Profit attributable to equity holders of the Company (RMB'Million)	47,767	28,896
Dilution effect arising from share-based awards issued by non wholly-owned subsidiaries and associates (RMB'Million)	(137)	(90)
Profit attributable to equity holders of the Company for the calculation of diluted EPS (RMB'Million)	<u>47,630</u>	<u>28,806</u>
Weighted average number of ordinary shares in issue (million shares)	9,514	9,476
Adjustments for share options and awarded shares (million shares)	173	128
Weighted average number of ordinary shares for the calculation of diluted EPS (million shares)	<u>9,687</u>	<u>9,604</u>
Diluted EPS (RMB per share)	<u>4.917</u>	<u>2.999</u>

7 Dividends

A final dividend in respect of the year ended 31 December 2020 of HKD1.60 per share (2019: HKD1.20 per share) was proposed pursuant to a resolution passed by the Board on 24 March 2021 and subject to the approval of the shareholders at the 2021 AGM. This proposed dividend is not reflected as dividend payable in the Interim Financial Information.

The Board did not declare any interim dividend for the three months ended 31 March 2021 and 2020.

8 Investments in associates

	Unaudited 31 March 2021 RMB'Million	Audited 31 December 2020 RMB'Million
Investments in associates		
– Listed entities (Note)	205,350	171,048
– Unlisted entities	117,795	126,561
	323,145	297,609

Note:

As at 31 March 2021, the fair value of the investments in associates which were listed entities was RMB1,111,647 million (31 December 2020: RMB981,902 million).

Movement of investments in associates is analysed as follows:

	Unaudited Three months ended 31 March 2021 RMB'Million	2020 RMB'Million
At beginning of period	297,609	213,614
Additions (a)	17,207	12,125
Transfers (b)	5,536	(2,710)
Dilution gains on deemed disposal (Note 3(a))	1,904	–
Share of profit of associates	1,348	22
Share of other comprehensive income/(loss) of associates	668	(25)
Share of other changes in net assets of associates	1,196	736
Dividends	(15)	(4)
Disposals	(1,812)	(1,320)
Impairment reversal, net	–	1,345
Currency translation differences	(496)	722
At end of period	323,145	224,505

Note:

- (a) During the three months ended 31 March 2021, the Group's additions to investments in associates mainly comprised the following:
- (i) a consortium (the "UMG Consortium") formed together with TME and certain global financial investors to acquire additional 10% equity interests in Universal Music Group ("UMG") from its parent company, Vivendi S.A.. The Group's additional investment in the UMG Consortium amounted to approximately EUR975 million (equivalent to approximately RMB7,792 million), and the investment remained as an associate; and
 - (ii) new associates and additional investments in existing associates with an aggregate amount of approximately RMB9,415 million during the three months ended 31 March 2021. These associates are principally engaged in games, online medical platform and other Internet-related business.
- (b) During the three months ended 31 March 2021, transfers mainly comprised investments in associates of approximately RMB6,140 million transferred from FVPL mainly due to conversion of the redeemable instruments into ordinary shares upon their IPOs or obtaining board representatives.

9 Financial assets at fair value through profit or loss

FVPL include the following:

	Unaudited 31 March 2021 RMB'Million	Audited 31 December 2020 RMB'Million
Included in non-current assets:		
Investments in listed entities	23,912	23,554
Investments in unlisted entities	150,922	133,506
Treasury investments and others	9,092	8,884
	183,926	165,944
Included in current assets:		
Investments in listed entities	–	10
Treasury investments and others	9,286	6,583
	9,286	6,593
	193,212	172,537

Movement of FVPL is analysed as follows:

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
At beginning of period	172,537	135,936
Additions and transfers ((a) and Note 8(b))	12,271	19,360
Changes in fair value (Note 3)	14,740	1,317
Disposals and others	(6,766)	(2,671)
Currency translation differences	430	2,558
	<u>193,212</u>	<u>156,500</u>
At end of period	<u>193,212</u>	<u>156,500</u>

Note:

- (a) During the three months ended 31 March 2021, the Group's additions and transfers mainly comprised new investments and additional investments with an aggregate amount of approximately RMB19,022 million in listed and unlisted entities. These companies are principally engaged in express delivery, eCommerce, Internet platform, technology and other Internet-related businesses.

10 Financial assets at fair value through other comprehensive income

FVOCI include the following:

	Unaudited	Audited
	31 March	31 December
	2021	2020
	RMB'Million	RMB'Million
Equity investments in listed entities	226,765	199,465
Equity investments in unlisted entities	13,472	13,626
	<u>240,237</u>	<u>213,091</u>

Movement of FVOCI is analysed as follows:

	Unaudited	
	Three months ended 31 March	
	2021	2020
	RMB'Million	RMB'Million
At beginning of period	213,091	81,721
Additions and transfers (a)	12,966	6,215
Changes in fair value	18,169	(7,511)
Disposals	(5,914)	(1,539)
Currency translation differences	1,925	1,290
	<u> </u>	<u> </u>
At end of period	240,237	80,176
	<u> </u>	<u> </u>

Note:

- (a) During the three months ended 31 March 2021, the Group's additions and transfers mainly comprised the following:
- (i) an additional investment in an eCommerce entity of approximately JPY72,406 million (equivalent to approximately RMB4,294 million); and
 - (ii) new investments and additional investments with an aggregate amount of approximately RMB7,464 million in listed and unlisted entities. These companies are principally engaged in Internet platform, technology and other Internet-related businesses.

11 Accounts receivable

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

	Unaudited	Audited
	31 March	31 December
	2021	2020
	RMB'Million	RMB'Million
0 ~ 30 days	17,278	19,708
31 ~ 60 days	15,466	10,867
61 ~ 90 days	8,037	4,506
Over 90 days	10,895	9,900
	<u> </u>	<u> </u>
	51,676	44,981
	<u> </u>	<u> </u>

Receivable balances as at 31 March 2021 and 31 December 2020 mainly represented amounts due from online advertising customers and agencies, FinTech and cloud customers, content production related 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 content production related customers and FinTech and cloud customers, are usually granted with a credit period within 90 days.

12 Share-based payments

(a) Share option schemes

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

The Pre-IPO Option Scheme, the Post-IPO Option Scheme I, the Post-IPO Option Scheme II and the Post-IPO Option Scheme III expired on 31 December 2011, 23 March 2014, 16 May 2017 and 13 May 2019, respectively. Upon the expiry of these schemes, no further options would be granted under these schemes, but the options granted prior to such expiry continued to be valid and exercisable in accordance with provisions of the schemes. As at 31 March 2021, there were no outstanding options exercisable of the Pre-IPO Option Scheme, the Post-IPO Option Scheme I and the Post-IPO Option Scheme III.

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

The Company allows certain of the grantees under the Post-IPO Option Scheme II and the Post-IPO Option Scheme IV to surrender their rights to receive a portion of the underlying shares (with equivalent fair value) to set off against the exercise price and/or individual income tax payable when they exercise their options.

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

	Post-IPO Option Scheme II		Post-IPO Option Scheme IV		Total No. of options
	Average exercise price	No. of options	Average exercise price	No. of options	
At 1 January 2021	HKD205.36	37,435,134	HKD380.50	67,806,750	105,241,884
Granted	-	-	HKD618.00	8,428,843	8,428,843
Exercised	HKD145.22	(280,534)	HKD327.58	(612,672)	(893,206)
Lapsed/forfeited	-	-	HKD369.80	(109,452)	(109,452)
At 31 March 2021	HKD205.82	<u>37,154,600</u>	HKD407.45	<u>75,513,469</u>	<u>112,668,069</u>
Exercisable as at 31 March 2021	HKD205.78	<u>37,032,787</u>	HKD376.47	<u>21,393,771</u>	<u>58,426,558</u>

	Post-IPO Option Scheme II		Post-IPO Option Scheme IV		Total No. of options
	Average	No. of options	Average	No. of options	
	exercise price		exercise price		
At 1 January 2020	HKD185.86	50,358,800	HKD375.36	61,738,193	112,096,993
Granted	–	–	HKD360.01	7,514,304	7,514,304
Exercised	HKD197.35	(230,019)	HKD294.12	(331,936)	(561,955)
Lapsed/forfeited	–	–	HKD344.14	(169,442)	(169,442)
At 31 March 2020	HKD185.81	<u>50,128,781</u>	HKD374.15	<u>68,751,119</u>	<u>118,879,900</u>
Exercisable as at 31 March 2020	HKD179.67	<u>43,000,228</u>	HKD366.22	<u>10,717,055</u>	<u>53,717,283</u>

During the three months ended 31 March 2021, 3,374,630 options (three months ended 31 March 2020: 4,399,815 options) were granted to an executive director of the Company.

(b) Share award schemes

The Company has adopted the Share Award Schemes as of 31 March 2021, which are administered by an independent trustee appointed by the Group. The vesting period of the awarded shares is determined by the Board.

Movements in the number of awarded shares for the three months ended 31 March 2021 and 2020 are as follows:

	Number of awarded shares	
	2021	2020
At beginning of period	82,594,936	76,615,755
Granted	29,779,127	10,658,234
Lapsed/forfeited	(1,018,874)	(826,918)
Vested and transferred	(6,486,775)	(3,689,645)
At end of period	<u>104,868,414</u>	<u>82,757,426</u>
Vested but not transferred as at the end of period	<u>20,639</u>	<u>77,227</u>

During the three months ended 31 March 2021, 40,500 awarded shares were granted to four independent non-executive directors of the Company (three months ended 31 March 2020: 59,500 awarded shares had been granted to five independent non-executive directors of the Company).

13 Accounts payable

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

	Unaudited 31 March 2021 RMB'Million	Audited 31 December 2020 RMB'Million
0 ~ 30 days	95,581	82,916
31 ~ 60 days	2,880	2,196
61 ~ 90 days	244	665
Over 90 days	3,920	8,253
	<u>102,625</u>	<u>94,030</u>

14 Borrowings

	Unaudited 31 March 2021 RMB'Million	Audited 31 December 2020 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD bank borrowings, unsecured (a)	117,167	110,629
Non-current portion of long-term EUR bank borrowings, unsecured (a)	–	1,204
Non-current portion of long-term EUR bank borrowings, secured (a)	10	12
Non-current portion of long-term RMB bank borrowings, unsecured (a)	300	300
	<u>117,477</u>	<u>112,145</u>

	Unaudited 31 March 2021 RMB' Million	Audited 31 December 2020 RMB' Million
Included in current liabilities:		
USD bank borrowings, unsecured (b)	9,200	9,135
HKD bank borrowings, secured (b)	–	144
RMB bank borrowings, unsecured (b)	848	4,079
RMB bank borrowings, secured (b)	–	100
KRW bank borrowings, unsecured (b)	3	–
Current portion of long-term USD bank borrowings, unsecured (a)	1,610	783
Current portion of long-term EUR bank borrowings, secured (a)	2	1
Current portion of long-term EUR bank borrowings, unsecured (a)	1,155	–
	12,818	14,242
	130,295	126,387

Note:

- (a) The aggregate principal amounts of long-term bank borrowings and applicable interest rates are as follows:

	Unaudited		Audited	
	31 March 2021		31 December 2020	
	Amount	Interest rate	Amount	Interest rate
	(Million)	(per annum)	(Million)	(per annum)
USD bank borrowings	USD18,075	LIBOR + 0.70% ~ 1.27%	USD17,075	LIBOR + 0.70% ~ 1.27%
EUR bank borrowings	EUR151	0.52%~1.00%	EUR151	0.52%~1.00%
RMB bank borrowings	RMB300	5.70%	RMB300	5.70%

- (b) The aggregate principal amounts of short-term bank borrowings and applicable interest rates are as follows:

	Unaudited 31 March 2021		Audited 31 December 2020	
	Amount (Million)	Interest rate (per annum)	Amount (Million)	Interest rate (per annum)
USD bank borrowings	USD1,400	LIBOR + 0.45% ~ 0.50%	USD1,400	LIBOR + 0.45% ~ 0.50%
HKD bank borrowings	–	–	HKD171	HIBOR+ 0.90% ~ 3.90%
RMB bank borrowings	RMB848	3.85% ~ 5.00%	RMB4,179	3.55% ~ 5.22%
KRW bank borrowings	KRW600	2.68%	–	–

15 Notes payable

	Unaudited 31 March 2021 RMB'Million	Audited 31 December 2020 RMB'Million
Included in non-current liabilities:		
Non-current portion of long-term USD notes payable	122,942	122,057

Note:

The aggregate principal amounts of USD notes payable were USD18,800 million (31 December 2020: USD18,800 million). Applicable interest rates were at 1.375% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910% (31 December 2020: rates were at 1.375% ~ 4.70% and 3-month USD LIBOR + 0.605% ~ 0.910%) per annum.

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

16 Subsequent events

Update of Global Medium Term Note Programme (the “Programme”) and completion of USD4.15 billion issue of notes under the Programme

In April 2021, the Company updated the Programme and issued four tranches of senior notes under the Programme with an aggregate principal amount of USD4.15 billion from 10 years to 40 years, with interest rate ranging from 2.88% to 3.94%.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the three months ended 31 March 2021.

Employee and Remuneration Policies

As at 31 March 2021, the Group had 89,228 employees (31 March 2020: 64,238). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

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

The total remuneration cost incurred by the Group for the three months ended 31 March 2021 was RMB20,401 million (for the three months ended 31 March 2020: RMB15,143 million).

Audit Committee

The Audit Committee, together with the Auditor, has reviewed the Group's unaudited Interim Financial Information for the three months ended 31 March 2021. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

Compliance with the Corporate Governance Code

Save as disclosed in the corporate governance report in the 2020 annual report of the Company, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not complied with the code provisions as set out in the CG Code during the period from 1 January 2021 to 31 March 2021.

As to the deviation from code provisions A.2.1 and A.4.2 of the CG Code, the Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

APPRECIATION

On behalf of the Board, I would like to express our wholehearted appreciation to our staff and management team for their remarkable contributions to the Company and their untiring dedication to accomplish our mission of “Value for Users, Tech for Good”. I would also like to extend our gratitude to all our shareholders and stakeholders for their unwavering support and trust during this challenging period. We will strive to build a sustainable ecosystem in the Consumer Internet and Industrial Internet sectors and create value for our users with our products and services.

By Order of the Board
Ma Huateng
Chairman

Hong Kong, 20 May 2021

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.

DEFINITION

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

Term	Definition
“2021 AGM”	the annual general meeting of the Company to be held on 20 May 2021 or any adjournment thereof
“Audit Committee”	the audit committee of the Company
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Bitauto”	Bitauto Holdings Limited, a company incorporated in the Cayman Islands with limited liability, which became a non wholly-owned subsidiary of the Company following completion of its privatisation in November 2020
“Board”	the board of directors of the Company
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules
“Company”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange
“CRM”	Customer Relationship Management
“DAU”	daily active user accounts
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EMEA”	Europe, the Middle East and Africa
“EPS”	earnings per share
“EUR”	the lawful currency of the European Union
“FinTech”	financial technology
“FVOCI”	financial assets at fair value through other comprehensive income

“FVPL”	financial assets at fair value through profit or loss
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong InterBank Offered Rate
“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“IPO”	initial public offering
“K-12”	Kindergarten through twelfth grade
“KRW”	the lawful currency of Republic of Korea
“LIBOR”	London InterBank Offered Rate
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“M&A”	mergers and acquisitions
“MAU”	monthly active user accounts
“MOBA”	Multiplayer Online Battle Arena
“PaaS”	Platform-as-a-Service
“PC”	personal computer
“Post-IPO Option Scheme I”	the Post-IPO Share Option Scheme adopted by the Company on 24 March 2004
“Post-IPO Option Scheme II”	the Post-IPO Share Option Scheme adopted by the Company on 16 May 2007

“Post-IPO Option Scheme III”	the Post-IPO Share Option Scheme adopted by the Company on 13 May 2009
“Post-IPO Option Scheme IV”	the Post-IPO Share Option Scheme adopted by the Company on 17 May 2017
“PRC” or “China”	the People’s Republic of China
“PRC CIT”	PRC corporate income tax as defined in the “Corporate Income Tax Law of the People’s Republic of China”
“Pre-IPO Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on 27 July 2001
“PUBG”	PlayerUnknown’s Battlegrounds
“R&D”	research and development
“RMB”	the lawful currency of the PRC
“ROI”	return on investments
“SaaS”	Software-as-a-Service
“Share Award Schemes”	the share award scheme adopted by the Company on 13 December 2007, the share award scheme adopted by the Company on 13 November 2013, and the share award scheme adopted by the Company on 25 November 2019, as amended from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TME”	Tencent Music Entertainment Group, a non wholly-owned subsidiary of the Company which is incorporated in the Cayman Islands with limited liability and the shares of which are listed on the New York Stock Exchange
“United States”	the United States of America
“USD”	the lawful currency of the United States
“VAS”	value-added services